EFFECTS OF WORLD TRADE ORGANIZATION (WTO) ON INDIA'S FOREIGN TRADE

ABSTRACT
THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

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ABSTRACTS

The World Trade Organization (WTO) came into force on January 1, 1995, replacing the previous GATT. Compared to GATT, WTO is much more powerful because of its institutional foundation. The WTO presently has 148 members, accounting for over 97 percent of world trade. It is head quartered at Geneva, Switzerland. The GATT rules did not work effectively. It failed in observing the complexities of world trade, which had been growing steadily since the Bretton Woods days both in ternis of commodity, and the nature of regulators. GATT was adhoc and provisional. As a result efforts had been taken to improve the agenda through different trade negotiations round. The last round known as "Uruguay Round", eight in series was more important. This round led to the creation of WTO. The overriding objective of WTO is to help trade flow smoothly, freely. fairly and predictably. It is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of worlds trading nations.

With the establishment of the WTO the international scenario has rapidly changed and opportunities are available to all countries to benefit from great access to world markets. Several people in their study have analysed the implication of WTO for India. The Studies of Rana R.K, Kuldeep Singh, Chaddha G.K, Panchamukhi, V.R, Singh Sukhpal, Viblia Mathur, Kumar Nagesh, Mohandas, etc, have shown that, India's entrance in the WTO has been favourable to its external sector. They said that Government of India could mop up more benefits if it had taken some precautions. They have also suggested some future strategies and initiatives for India.

As the WTO has completed a few years of its existence, this study entitled "Effects of WTO on India's Foreign Trade", mainly cover the periods from 1990s onwards. It has divided into Pre and Post WTO period The periods before 1995

have been treated as the Pre WTO Period, whereas the periods of 1995 onwards are regarded as the Post WTO periods.

To fulfill our effort, required data have been taken from publication of Ministry of Finance, RBI, CSO and other departments, offices of the government of India. In addition, the sources of data also include, CMIE, WTO, World Bank, and UNCTAD. In our study, we have used both theoretical as well as simple statistical approach. To proceed with the study some hypothesis are also proposed. It has been hypothesized that the prospects of India's foreign trade expected to be better in the world after the initiation of liberalization policies and trade policy reforms under the WTO. There will be enhancement of trade under the WTO and new trading partners, new markets will emerge. It has also been hypothesized that the WTO guided reforms would eliminate the barriers coming in the way of India's trade and would allow the maximum reallocation of resources according to the counliy's dynamic comparative advantage.

This study has attempted to analyze the impact of WTO on India's foreign trade. In order to make an indepth study we have focused on both merchandise as well as services trade. As the foreign investment has an important bearing on external sector, this study has also analyzed the position of FDI in India as an item of capital account of BOP.

Our study of WTO agreements and principles have shown that, the WTO agreement incorporates some 29 individual texts which are spread over three compartments, viz., goods, services and intellectual property rights. There are two more groups of agreements namely, agreement on Trade Policy Reviews and the Plurilateral agreements. Its trading system is founded on certain basic principles, namely. Most Favoured Nation (MFN) Clause, and National Treatment Clause. The WTO's top-level decision-making body is the Ministerial Conference, which meets at least once eveiy two years and is composed of international trade ministers from all member countries.

India is proud to have been a founder member of WTO. It became the member of WTO on December 30, 1994, by ratifying the WTO agreement. The then Commerce Minister Sri Pranab Mukherjee signed the acceptance of WTO at Marrakesh in Morocco. There was a hot discussion in the country for the acceptance of WTO. Some people favoured it, while other opposed it. However, gradually an Unanimity began emerging in favour of India's association with WTO. It was considered that with an ever larging number of developing countries opting for economic reforms and globalization of their economies, it would be non-prudent and reckless course of isolation in a more integrated and fiercely competitive world.

Our analysis of India's merchandise trade shows that, Indian economy is being diversified. Both traditional and non-traditional items of exports have grown in importance. Our country has also experienced a sea change in its trade direction. In the current wave of globalization, India has also taken major initiatives. In the beginning of mid 1991, the government of India has introduced a series of reforms to liberalize and globalize the Indian economy. The WTO's Trade Policy Review of India for 2002 concludes that India's economic reform programme has resulted in strong economic growth throughout the 1990s. In addition to duly drawbacks, it encompasses schemes such as export processing zones and special economic zones. Export promotion continues to be a major thrust of India's trade policy. Imports were also liberalized. India has notified the WTO of its removal of restrictions on 714 items on December 2000 and another 715 imports items on Februaiy 2002, respectively. Our analysis indicated that for the entire post reform period i.e., 1991 to 2000, the Compound Annual Growth Rate (CAGR) of exports was 10.2 percent. The period from l'99l to 2003 has also been marked by rapid growth of India's exports, even exceeding the growth of world exports. However, India's share in world exports declined since independence. India's exports as percentage of world exports remained at around

0.5 percent in the first half of 1990s but it improved and stood at 0.8 percent in 2003. However, this growth in exports- is accompanied by still larger growths in imports. Exports have remained sluggish due to lack of exportable surplus, competition in the international markets, inflation at homes and increasing protectionist policies of developing countries. However, instead of all these, India's external sector has performed credibly over the 1990s. This led to trade deficits. Our study of India's major exports items shows that, presently manufactures account for three fourths of countiy's exports. The share of agriculture and allied products has declined tremendously. It stood at 14 percent in 2000-2001. Among manufactured goods, about one fifth of total export earnings are provided by handicrafts, of which gems and jewellery holds the largest share. In 2002-03, major traditional exports like textiles, gems and jewelleiy, engineering goods, chemical and related products contributed to the bulk of increase in manufactured goods. Besides, fruits and vegetables, rice, and processed foods are also becoming significant in our exports. Currently, the top 20 products that we are exporting account for more than 70 percent of our exports. Export performance in April-October 2004, shows all round rise in growth across all major commodity groups. It is expected that, India's commodity exports would turnout to be around $ 345 by the year 2020, and it will be about 1.3 percent of the world exports.

Our study has also highlighted that Indian products face various new tariff barriers in the overseas markets, which are constraining our exports. According to the WTO, exports from India are currently subject to 40 anti dumping and 13 countervailing measures. It was against our hope that India would gains through new trade regime with the elimination and reduction of trade barriers. The country's exports of textiles, engineering products, chemicals and pharmaceuticals, agricultural and marine products have been affected on this count. With regard to market access for good product regulation and standards have become a growing issue. The major importers of Indian products ,viz., the us, EU and Japan, claiming for around one half of India's exports. They have made use of the safeguard clauses and some other clauses. Our investigation of major import items shows that, presently, major import items are petroleum, crude and products, pearls, precious and semiprecious stones, machinery, organic and inorganic chemicals, electronic goods, gold and silver. During the 1990s over all imports grew at the rate of 10.1 percent perannum. Our trading relations also reveal marked changes. USA, UK and Japan were the largest markets for Indian exports during the 1990s. USA Still continues to have a key influence on India's exports. UAE is now the second largest trade partner of India after USA. China has also emerged, as India's another biggest trading partner. With regard to sources of imports, the share of OECD countries has declined. As against of 63.8 percent in 1970-71, it declined to 39.9 percent in 2000-01. The share of other developing countries mainly of Asia have increased. The Enlargement of EU from May 1, 2004 is likely to facilitate greater market access. The decade of 1990s show positive results for terms of trade. The net terms of trade improved by an average annual rate of 2 percent perannum during 1991-92 to 2000-01, where as the income terms of trade grew by about 13.8 percent perannum during the same period.

Our sectoral research of merchandise trade shows that, despite being an agrarian economy, India has remained a marginal player in world trade. Presently, it has a share of less than 2 percent of the world market in agriculture. The Post Uruguay Round experience shows a mixed result for agricultural trade. Global liberalization of agricultural trade was seen as a great opportunity for promoting farm exports. However, opposed to the expectation and anticipations, the price situation changed dramatically and dropped to a veiy low level, and this made Indian market attractive for import of several agricultural commodities. The farmers in the developed countries with massive support of government through domestic and export subsidies and high tariffs clearly have unfair advantage over the farmers in developing countries. There is a massive distortion in international trade in agriculture. However, despite the concern of farmers many believe that the WTO rules will not advereely affect the Indian agriculture. Better overseas market will be available for Indian agricultural products, etc. The EXIM Policy of 2002-07 gives a major thrust to agricultural exports by removing export restrictions on designated items.

The examination of manufacturing sector shows that, India's manufacturing sector has also undergone a transformation. Industrial deregulation and liberalization have opened up opportunities. Growth rate of manufacturing was higher than that of the Republic of Korea, Newly Industrialized Counties (NICS). However, it is lov/er than China and the average growth rates in South and East Asia. Exports of manufactured goods recorded a healthy growth of 14 percent in 1999-2000. Gems and Jewelleiy, readymade garments and cotton yarn, fabrics and made ups are the major manufactured items exported from India. Nevertheless, despite of progressive liberalization, the sector's performance has not been in proportion to the potential. Slow pace of reforms, inadequate development of infrastructure, utilities and R & D have combined to keep lagging behind most other developing economies. High tech exports consist of only 11 percent of India's exports.

The study of India's textile and clothing Industiy has revealed that, it is the largest manufacturing sector in India, providing 30 percent of India's total merchandise trade. On January 1, 2005 the MFA was fully phased out and hence the trade in textiles and garments will no longer be subject to quotas. With the increasing market access for developing nations, competition is also expected to increase. Cost competitiveness, technology, energy, dyes, chemicals infrastructure are the major areas of concerns. Currently, domestic textile industiy has only a 3 percent share in global markets.

Our study of India's services trade shows that services have been the fastest growing area in international trade. It grows more than 12 percent per annum compared to 5 - 6 percent in the merchandise trade. Both developed and developing countries are increasingly dependent on trade in services. In India, the services sector contributes around 50 percent of the GDP, as against 71 percent in USA, 67 percent in UK, 60 percent in Japan and 78 percent in Australia. The growth rates of the services sector have been consistently accelerating. Invisible flows continued to be buoyant.

The GATS (General Agreement on Trade in Services) recognizes 4 modes of delivery of services. For India and other developing countries, major mode of interest is mode 4 (Movement of Natural Persons). However, for India Mode 1 (Cross Border Supply) and Mode 2 (Consumption Abroad) are also important. By via Mode I, it can deliver professional services electronically and via Mode 2, it can provide services such as medical, educational and tourism services to the foreigners visiting India. The study shows that, trade in services particularly of tourism and professional services have acted as engines of economic growth in India. In India growth rate of commercial services in the 1990s was 14.5 percent. As far as composition of services is concerned the buoyant growth of professional, technical and business services has provided a cushion against the slow down in traditional services such as travel and transportation. Softv^are and other miscellaneous services have grown as the main categories in India's export of services. These growths of services are attributed to many factors. According to IMF study, it was because of high-income elasticity of demand, user industry demand and rising exports, in addition to reforms and technological advances. The growth rate of net invisibles, invisible receipts and payment witnessed that India's invisible trade always generated surplus. It is playing its dominant role in earning foreign exchange of our country. It is a source of immense strengths to the current account. As far as direction of services is concerned, the share of two regions namely Dollar and OECD area in India's invisible balance has moved up. Presently, Dollar area is overriding region with respect to services trade with India.

Our sectoral analysis of India's services trade ,shows that liberalization and opening up of financial sector to global winds in place of closed regimes have brought faster growth for developed and developing countries. India has opened up services sector where there are spin-off benefits by way of technology transfer, investment or employment. The RBI has become more liberal in permitting the entry of new private banks and foreign banks. At the end of March 2002, there were 8 new private sector banks and 40 foreign banks in India. The principle of reciprocity of "WTO has also helped in the opening up of foreign banks in the country. The financial health of commercial banks has improved. However, the study also revealed that, India's export of financial services is negligible. Profitability is still low in India. India's position is far behind the developed countries, but reasonably good compared to other LDCs. The present interest of banks to enter into insurance business mirrors the global trends.

It is evident from our study of Tourism and Travel sectors that. GATS has opened a plethora of opportunities in tourism and travel related services. Despite a negligible player in world, tourism industiy is playing a significant role in India. It generates 10.8 percent of the total exports. Although for India, the number of tourist arrivals has not increased dramatically, its composition has changed due to fall in the number of those visiting the countiy for sight seeing and rise at a rate of nearly the ten percent of those coming on health grounds. Tourist expenditure in India constitutes an important segment of travel receipts. Indian tourism, which glimpses a high potential area, suffers from several inadequacies. These related to poor infrastructure, law and order problem, visa problem etc. Yet, there is veiy good potential for obtaining growth in this industiy. Travels have also significantly contributed where receipts through this item always remain higher than payments. In our international account, the net transportation proceeds always remained unfavourable or negative. India is a small player in air transport services despite its liberalized policy. Whereas maritime services are diverse in India, they are comparatively small in volume.

With regard to telecommunication sector our study highlighted that, our telecommunication sector is making rapid move with the liberalized policy growth of telenetwork. Although export from this service is negligible, India's future potential in this sector is unlimited with a broad based of professionals and technical manpower.

In our study, we found that computer software is one of the growing items in which India has an edge over other economies. The growth of internet and global information technology market has increased the demand for computer professionals from India. In total exports, the shares of software exports have reached to 10.5 percent in 1999-2000, It is estimated to jump to 36 percent by 2008. In terms of quality also, Indian software industiy is doing well. More than 170 companies have achieved ISO 9000 certification. Though Indian software industry has the momentum to achieve high growth rate, it is beset with a number of problems. These are related to shortage of competent professionals, inadequate communication facilities, visa regulation, work permit, threat from China, etc.

India has been aggressively seeking access for its professionals in the markets of developed countries. The emphasis by India for higher commitments by developed countries under the Mode 4 (Movement of Natural Persons) would correct an important imbalance and increase developing countries participation in trade in services. India has forwarded its request in respect of medical, dental and health services, computer aided seiTices and maritime services. Some other services of India's interest, on which requests are being formulated, include computer and related services accountancy, auditing and book keeping services, construction and audio-visual services. It has so far remains isolated on the issue of movement of natural persons. It has not even able to align itself with any strong negotiating group whose interests are similar to India.

We have also analysed the prospects and positions of FDI in India. Our study shows that, international commerce is today conducted by Multinational Corporation with substantial investments in many countries. The Uruguay Round included negotiations on Trade Related Investment Measures (TRIMs) and the WTO too includes a TRIMs agreement. The impact of FDI on the export performance of the Indian industry assumes significance as the ongoing liberalization policy is based on the belief that FDI helps resolving foreign exchange constraints to development by its contribution to increased exports apart from bringing in net resource inflows on the capital account of the BOPs. TRIMS Agreement requirements especially those relating to trade such as local content requirements and foreign exchange neutrality. Local content regulations have been used by a large number of developed and developing countries. The implementation of the TRIMs agreement requires member countries to phase out performance is likely to have important implications for developing countries by taking away some of the flexibility to regulate foreign investors in pursuing their development policy objectives. Yet, the agreement also brings a number of asymmetries. The study indicated that in India provisions regarding TRIMs is not different from those, which we have incorporated in our New Economic Policy since July 1991, leading to opening the economy for foreign investors. India allows foreign investment to vaiying levels of foreign equity participation ranging from 24 percent to 100 percent, depending on whether the sector is given priority. All sectors to the economy except those relating to security concerns, are now open to foreign investment.

In a joint submission with Brazil to the WTO's committee on TRIMs in October 2002, India proposed that the. TRIMs agreement should be amended to include provisions that provide developing countries with the flexibility to implement development policies. Under the purview of the TRIMs agreement, government of India indicated that the TRIMs agreement should be reviewed with the objective of not impeding industrialization of developing countries.

The study highlighted that the government is now pursuing a proactive policy to attract FDI. Liberalization of the FDI policy regime has resulted in a substantial expansion of FDI approvals and flows. From the data it is reflected that FDI inflows witnessed a rapid increase from $ 165 million in 1991-92 to $ 4222 million in 2001-02. However, after that, it declined and reached to $ 2776 million in 2003-04. The actual FDI has been considerably less. It was just 46 percent of the FDI approval. With regard to sources of FDI, Mauritius contributes the largest share. It's nothing but US investment, routed through Mauritius foi- tax heavens. The sectorwise analysis of FDI shows that, with the opening of new areas for foreign investors, a huge amount of approval and actual flow is found in non-traditional areas such as fuel and power, services and some consumer goods.

It is also focused that, despite much optimism shown by various countries regarding India as a favourable investment destination, India still falls well short of its ambitious target. Over one half of the approved amount is claimed by only six or seven countries. China has maintained its top ranking as the most attractive FDI destinations. However, India rose from sixth to third most likely FDI location globally, just behind USA.

India should effectively use its Qxternal openness. Its human capital and R & D base has pockets of international excellence, most notably in information technology and in some defence related heavy industry. Until recently and in contrast to most of East Asia, its educational priorities resulted in centers of international quality. The prospects for FDI flows to India are also promising as in China. India's seemingly large domestic market is probably the main attraction for foreign firm. The study revealed that China's success in FDI is not only a challenge but also a message of hope that India too can make a quantum jump by greater opening of the economy and by ensuring that domestic policies are conductive to the expectation of the growth potential of trade and FDI. What needed is a strategic view.

To sum up, in our study we found that, during 1990s India has become increasingly open to external trade and.investment flows. Her active cohesion to a multilateral trade and investment regime under the aegis of the WTO is an important element of its economic and "foreign policy. Our country has undergone fundamental changes to correct the earlier anti-export bias. There have been phenomenal expansions in international trade and investment flows. Exports have been diversified. Imports have also been liberalized. New trading partners have emerged. But despite of all these achievements, still there is lot to do. Our country is still a negligible player in world trade. Several new tariff barriers used by the developed countries are constraining our exports. The major supply constraints that continue to hinder our exports include infrastructure constraints, high transaction costs, SSI reservations, labour inflexibility, constraints in attracting FDI in the export sector and quality problems. Despite huge potentials the lack of long term policies continue to hinder exports of agricultural products. The Indian policy makers need to address all the issues, which are obstacles in our growth. Much more growth focused EXIM policy has to be drafted. There are also several visible and invisible barriers to trade in services. Developing countries like India and others have never been veiy comfortable with the existing investment related provisions of WTO. It has been recognized that there are unequal players in the game and developing countries are limited in their financial and physical capacities to undertake equal commitments. In this new world economic scenario where the WTO envisages a global market based on competition, there will be challenges faced by the developing counties. It will lead to sudden and fierce competition, uncurbed imports, pressure to change from indigenous and probably poor technology to borrowed technology which will be costly. To achieve a higher share of the world market, hard efforts are needed. It will require improved quality and greater openness. Greater focus has need to be accorded to certain key areas, such as, R & D technology upgradation, Human Resource Development (HRD) and strengthening of infrastructural facilities. In international trade negotiations, it is very difficult to push any agenda, unless we endorsed by a formidable alliance. India needs to construct an alliance of like minded demandeur countries. Today, if challenges are lots, opportunities are also exist. What is required, is to take actions on time with least cost so as to reap the benefits of free trade offered by the WTO.

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Certificate

This is to certify tliat the thesis **"Effects of World Trade Organization (WTO) on India's Foreign Trade"** is record of genuine research carried out by **Ms. Shahina Perween,** Enrolment No. Z-0809. The candidate has completed the research work under my supervision and guidance for the full period prescribed under clause of VI and of the Ph.D. ordinance and that the thesis embodies the result of her own investigation conducted during the period. She worked as full time Ph.D. research scholar.

The present work is suitable to be submitted for the award of Doctor of Philosophy degree of Economics, Aligarh Muslim University, Aligarh (India).

I recommended this thesis for evaluation.

(Prof. Ashok Mittal)
Chairman

(Prof. Masood Hasan)
Supervisor

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Dedicated

to

My Parents

&

Family

PREFACE

The nature of world trade has gone through significant structural changes in recent years. On January 1, 1995, conclusions of Uruguay Round of trade negotiations has resulted in the formation of World Trade Organization (WTO), the first and the most powerful world trade regulating agency. India is proud to have been a founder member of WTO. The aim was to participate in the WTO rule based system with greater stability, transparency and predictably in the governance of international trade. In mid 1991, the Indian government initiated macro economic reforms and structural adjustments in different areas of the economy. India became increasingly open to external trade and investment flows. Various measures were adopted to correct the earliest anti export bias. These were in the form of withdrawal of quantitative restrictions (QRs), reduction and rationalization of tariffs, liberalization in the trade and payments regime and improved access to export incentives.

With considerable degree of openness, there has been a phenomenal expansions in international trade and investment flows of India. India's expoits have been consistently rising. Indian economy is being diversified. It has come to that stage of development where the role of services sector, especially of services exports have become more and more dominating. Realizing the important contribution of foreign capital, government introduced major changes to attract FDI in India.

However, despite of all these efforts, external sector refomis have not lived upto expectation. India is still a negligible player in world trade. It has so far been unable to define its ability and direction to conduct international trade in the face of highly competitive international trade regime. Services trade are also facing several barriers. India is still on a lower ladder among some major FDI receiving countries of Asia.

It is against this back ground, this study attempts to analyze the impact of WTO on India's foreign trade, both goods and services. India's competitiveness in attracting FDI have also been evaluated. From the analysis, it has been recognized that, there are unequal players in the game, and developing countries, including India are limited in their financial and physical capacities to take equal commitments. Our analysis revealed that, to compete in this era of multilateral trade negotiations (MTNs) India needs some hard negotiations at the WTO.

To sum up, for India Implications are that, in the short run gains ma>' be unimpressive but it will certainly pick up in the long run as reform process gathers momentum.

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(SHAHINA PERWEEN)

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(SHAHINA PERWEEN)

CONTENTS

LIST OF TABLES

LIST OF FIGURES

1.1 INTRODUCTION:

The World Trade Organization (WTO) is a follow-up of GATT. GATT was the old General Agreement on Tariffs and Trade and it was later superseded by the WTO, when the WTO established.

The interwar and Second World War period was characterized by trade conflict, discriminations and trade restrictions. An attempt was made to restore order to international trade. In 1948, a conference on "Trade and Employment" was held at Havana. In this conference; the establishment of ITO, IMF and IBRD were proposed. This Havana charter was signed by 54 states. The charter of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) was established to promote monetaiy stability and to provide resources to reconstruction needs. The International Trade Organization (ITO) was suggested to oversee the liberalization of world trade as a specialized agency of the United Nation. The first two institutions were established on December 27, 1945. But the ITO did not come into existence, due to the clash of interests. The US congress could not bring itself round to ratifying the Havana charter. The ITO was opposed by majority of legislatures for different reasons and ultimately it was sealed.'

As a result, GATT, a temporaiy body came as an iterim arrangement for ITO. Great cares were taken in drafting the GATT. The first draft emerged at Lake Success, New York, in 1947. Further negotiations were held in Geneva. Product-by Product negotiations on a bilateral basis were taken. The General Agreement on Tariffs and Trade was signed by 23 states in Geneva on October 30, 1947. It came into force on Januaiy 1, 1948, for eight states. The remaining states ratified the Agreement in the following months.

GATT was adhoc and Provisional. It was a less ambitious organization, having its headquarters in Geneva. The member countries of GATT would meet in Geneva and negotiate jointly on trade policy matters. There by, GATT was hoped to be a more orderly and the result achieved would be just. The contracting parties of GATT were its highest decision making body, entitled to one vote. The Director General was the head of the GATT Secretariat. Those who have held this office before the existence of WTO were, Eric Wyndham White (1948-1968), Oliver Long (1968-1980), Arthur Dunkel (1980-1993), Peter Sutherland (1993-1995).^

The basic principle of GATT was that of Non-Discrimination. The MFN (Most Favoured Nation) clause was the essence of GATT, through which contracting parties granted each other equality of treatment in order to avoid Uncontrolled and arbitrary protectionism. Tariff was the only means of trade policy, treated as the "Lowest" means of protection. The signatories of GATT also negotiate tariff reduction for the promotion of liberalized trade.

Raising standards of living, ensuring full employment, large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world, expanding the production and exchange of goods also constituted the objectives of GATT, 47. A Dispute Panel, setup in 1952 was responsible for the proposed solution for the GATT Council. GATT emerged as an international court also.

But the functioning and achievements of GATT was not free from controversy. It had often referred as "'Richman's Club", for ignoring the problems of developing countries. Developing countrie's views were echoed by Raul Prebish, the first Secretary General of UNCTAD. As a result. Article XXXVl in Part IV of GATT recognized the treatment of countries according to their different stages of development.^

Efforts have been taken to improve the agenda, through different trade negotiations. From 1947 to 1993 eight rounds of negotiations have been concluded. The eight one was the most important, known as "Uruguay Round". This is the round, which gave birth to WTO. A summaiy of all these rounds is given in Table A-I.

TABLE: A-I
Different Rounds of Trade Negotiations under GATT

1

Rounds	Place	Years	No of signatories	Gist
P'Round	Geneva	1947	23	Members exchanged tariffs cuts for 45000 products, worth $10 billion of trade on annual basis, average 20 percent.
2"" Round	Annecy (France)	1949		Custom duties reduced for another 5000 items of goods. Additional tariffs reduction of, between 1 and 2 percent of the total.
3'" Round	Torquay (U.K.)	1950-51	38	8700 Tariffs reductions.
4"^ Round	Geneva	1955-56	26	Duties Reduced on goods, worth $2.5 billion. Japan signs the agreement. Contracting parties reaffirmed their acceptance of the agreement in the current form.
5"^ Round (Dillion Round)	Geneva	1960-62	N.A.	Cuts on goods, worth $5 billions, 4,400 items. Agreement signed by Cambodia, Israel, and Portugal. Reduction in custom duties for thousands of products.
6"' Round (Kennedy Round)	Geneva	1964-67	50	Cuts on goods, worth S40 billion, up to 50%. GATT was further widened with the inclusion of special and differential treatment exceptions. First Multilateral Negotiations.
7"' Round (Tokyo Round)	Tokyo	1973-79	99	Cuts by 20 to 30% on goods, worth about $300 billion. Both tariff & non tariff measures were taken. A coding system was introduced. Most largest & comprehensive round.
8"^ Round (Uruguay Round)	Uruguay	f986-94	117	Most broad-based round of negotiations. It leds to the outcome of the WTO. Various new agreements came into force. Members agreed to eliminate, or reduce tariffs & non tariffs measures.

Source: Sharma, A.D. and Geetika (1995): "GATT/WTO and The New World Economic Order, Kitab Mahal, Allahabad, pp. 2-3.

The new issues of services, investment and intellectual propeily rights were included in the Uruguay Round for negotiations. The main issues of concern for India revolved around Agriculture, TRIPs, MFA in textile, TRIMs, GATS and Dispute Settlement Mechanism Under GATT. It has been argued that the agreement severely militates against several India's Laws. The apprehension is that GATT would have an adverse effect on India's sovereignty and development priorities.

Between the launching of the Uruguay Round in September 1986 at Punta del Este, till its formal conclusion in the Marrakesh ministerial meeting in April 1994, more than 60 developing countries reported unilateral liberalization measures to GATT, 24 acceded to GATT and 24 others were in the process of doing so.

The final act embodying the results of the Uruguay Round was ultimately agreed to on December 15, 1993 and formally approved and signed at the Ministerial level in Marrakesh, Morocco, on April 15, 1994. The agreement for WTO came into effect from January 1, 1995 after the ratifications of required necessaiy numbers. Agreement of establishing the WTO consists of XVI Articles and as per Art. I, of the agreement the WTO is established. The WTO is the only global international organization, dealing with the rules of trade between nations. At its heart are the WTO agreements,- negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

The WTO headquarter is in Geneva. The membership of WTO has been reached to 145 as on 5, Feb 2003. Presently, it has 148 member countries. Having budget of 154 million Swiss Francs, it has 550 staffs in 2003. Supachai Panichpakdi is its present director general. Those people who held this office earlier were Renato Ruggiro (1995-99), Mike Moore, (1999-2002)."

The aim of WTO is to enhance world trade through liberalization or as this is formulated by WTO itself "the main function is to ensure that trade flows as smoothly, predictably and freely as possible". The WTO is a rules-based, member driven organization, all decisions are made by the member governments, and the rules are the outcome of negotiations among members. While GATT comprised only goods, physical goods, WTO comprises all kinds of trade activities in physical goods, services, investment rules and intellectual property. Different sector agreements have been established.

As mentioned in Art. Ill of WTO, its main functions are administering WTO trade agreements forum for trade negotiations, handling trade disputes, monitoring national trade policies, technical assistance and training for developing countries and cooperation with other international organization.

In comparison to temporary nature of GATT, WTO is a permanent legal arrangement. It has a much more wider ambit, with very diflerent character. A beginning is also made to liberalize agricultural trade and to integrate textiles. The WTO has been presented as a necessary means for implementing the results of Uruguay Round within a common institutional framework (Paragraph I of Art. II). The purpose of the WTO is spelled out in the Preamble and Art. II, of the agreement establishing the WTO. Numerous specialized committees, working groups and parties deal with individual agreements and other areas, such as, the environment developments, membership applications and regional trade agreements (RTAs). Countiy receives guarantees that it exports will be treated fairly and consistently in other countries markets. Each promises to do the same for imports into its own market.

Over three-quarters of WTO members are developing or least developed countries. A committee on trade and development, assisted by a sub committee on least-developed countries, looks at developing countries special needs.

As per Art. IV, the structure of the WTO consists of the important bodies of Ministerial Conference, The General Council, The Dispute Settlement Body, The Trade Policy Review Body, The Council For Trade in Goods, The Council For Trade in Services and TRIPs, Subsidiary Bodies, the Committees on Trade and Development, BOP Restrictions, Budget, Finance and Administration Bodies provided for under the Multilateral Trade Agreements. GATT has become the WTO's Umbrella agreement for trade in goods.

WTO members have also made individual commitments under GATS, stating which of their services sectors they are willing to open to foreign competition, and how open those markets are.

The WTO's intellectual property Agreements amounts to rules for trade and investment in ideas and creativity. This rules states how copy rights, trademarks, Geographical names used to identify products, industrial designs, integrated circuit layout designs and undisclosed information, such as, trade secrets, "intellectual property" should be protected when trade is involved.

The WTO's Dispute Settlement Body (DSB), is important for enforcing the rules and therefore for ensuring that trade flows smoothly. This system encourages countries to settle their differences through consultation.

There is also a Trade Policy Review Mechanism indulge in improving transparency, creating a greater understanding of the policies that countries are adopting, and assessing their impact.^ The WTO agreement incorporates some 29 individual texts covering subjects. In addition, there are more than 25 Ministerial declarations, decisions and understandings which spell out various obligations and commitments.

India is proud to have been a founder member, both of GATT and of WTO. It became the founder member of WTO, b>' ratifying the WTO agreement on December 30, 1994.

1.2 IMPORTANCE OF THE STUDY:

The rapid growth of multilateral trading system draws one's attention to the role of WTO.

The present study seeks to examine the importance of WTO on world trade as a whole and of India in particular. It will enable us to understand the proper interpretation and application of the WTO agreements. It is all the more important to consider how the WTO ought to approach this interpretive lask.

The WTO has completed ten years of its existence. Ministerial conference, the top policy making body of the WTO, met five times, first in Singapore (1996), the second in Geneva (1998), third in Seatle (1999), and fourth in Doha (2001), and the last in Cancun (2003).

WTO's membership is likely to bring higher growth, accelerated export expansion and a better earning and living standard to the so- called average citizen of India. The WTO brought much expectation with it, mainly due to the improved market access guaranteed in the Uruguay Round of trade negotiations, which resulted in the formation of the WTO. It will provide a permanent and continuous forum of negotiations.

The present study will also help in providing an overall understanding of the WTO, its favourable and Unfavourable effects on the Indian economy, and its trades.

Ever since the formation of WTO, it has been a subject matter of hot discussion among Indian intellectuals. India is still in the process for preparing herself for facing the global challenges. The world today has entered into a new era, an era dominated by multilateral trading system. With the introduction of WTO, international trade is more liberal. The developing countries have to survive and compete in the globalized economic environment. As the GATT had been treated as a "Rich Man's Club", it is hoped that WTO will be successful in limiting the disadvantages of functioning in an unequally structured global economy and trade regime. But the need is to catch up first the opportunities thrown up by the WTO.

The study aims at making visible the problems in the WTO regime. WTO offers tremendous opportunities, but the need is to make aware of it. Many are not aware of its true implications. Even today many of the educated elite of the country is not fully aware of the WTO obligations and implications. Even the future global trade scene is not clear. The free multilateral trade would help Indian trade and industry to globalize rapidly. It will increase our FDI in many fields.

Technology will be improved. But at this early stage, it is too difficult to predict anything with conformity and accurately. An analysis will be made. With the establishment of the WTO and the signing of the non-tariff agreements, the international scenario has rapidly changed and opportunities are available to all countries to benefit from greater access to world markets.

As India prepares for the next phase of accelerated growth, it is useful to assess as to what extent the growth process is still internally driven and to what extent has the process of external liberalization and globalization exposed India to global factors. A higher share of the world market will require improved qualit)' and greater openness. We have to grasp the challenges if we have to emerge as a major economy. India's active adherence to a multilateral trade and investment regime under the aegis of the World Trade Organization (WTO), is therefore, an important element of its economic and foreign policy.

As the number and extent of participation by member countries keeps growing, the scope for exchange of market access has increased dramatically. Exchange of market access will tend to be greater national!}' and globally, the larger the number of countries involved and the broader the product and issues coverage of the negotiations.

The WTO is approaching the status of a truly global trade organization and brought much expectation with it.

13 HYPOTHESIS OF THE STUDY:

The following hypotheses are being proposed to proceed with the study.

1. That the prospects of India's foreign trade is expected to be better in the world after the initiation of the liberalization policies and trade policy reforms under the aegis of WTO.
2. It is understood that the earlier restrictive trade regime was not as conducive for India's trade.

3. The WTO guided reforms would eliminate the barriers coming in the way of India's trade, and would allow, the optimum realloci-tion of resources according to the country's dynamic comparative advantage.
4. There will be enhancement of trade under the WTO and the new free trade regime, and result in exploration of new trade partners in world market and maintenance of healthy economic relationship with rest of the world.

1.4 OBJECTIVES OF THE STUDY:

Our objective in this study is primarily to analyse the roles played by the WTO on India's foreign trade. Within the framework of these broad objectives, the specific objectives for the study are.

1. To have an overall understanding of the WTO,
2. To have a look on the establishment of the WTO in tlie light of GATT Agreement,
3. To analyse the rules and principles of establishments of WTO to existing scenario,
4. To analyse the role of the WTO on India's foreign trade.
5. To ascertain the causes for the slow impact of WTO on India's foreign trade, and
6. To suggest measures for taking advantages from the opportunities provided by WTO.

1.5 DATA BASE & RESEARCH METHODOLOGY:

The present study is based exclusively on secondaiy sources of data, which include publications of various authors as well as the publications of the Government of India, Ministry of Finance, other Departments, Offices of the Government of India and Reserve, Bank of India. In addition, a few publications of the UNCTAD, World Bank have also been used. Other sources of data include publications of Economic Intelligence Service, Bombay, various news papers, journals etc.. Thus, most of the relevant data have been taken from various issues of "India Trades^, published by CMIE, Mumbai, and Economic Survey data. Internet will be a great exposure.

Some of the WTO's publications such as, "WTO's Annual Report", WTO's Trade Policy Review-India", WTO's monthly news latter "Focus", have been used.

The study is divided into two periods viz. pre and the post WTO period. As the WTO has completed a few years of its existence, this study mainly cover the periods from 1990s onwards. The periods before 1995 have been treated as the pre WTO periods, whereas the periods of 1995 onwards are regarded as the post WTO periods. In our study we have used both statistical as well as theoretical approach. The methodology used here is simple statistical method.

1.6 LITERATURE REVIEW

Before going through upon a research project, it is essential to review the literature on the same subject. Several researchers have already provided extensive materials on various aspects related to WTO. An effort has been made here to review some of the existing literature oh World Trade Organization (WTO) and its role in multilateral trade.

Dubey, Muckund*^ (1996) has attemped to study the causes or the back ground that led to the formation of WTO.

Panchamukhi, V.R. (2000)^ in his work on "WTO and the challenges faced by India", has dealt with four types of themes. In the first section he has covered some broad issues, mainly positive aspects of new trading system under WTO. In the second section he has given an inventoiy of some of the specific issues of analytical and policy relevance that have cropped-up in a prominent manner, as a result of the recent wave of the economic reforms, including globalization, liberalization & privatization and the new trading system. In the third section he has presented some of the initiatives that India needs to take for taking advantage of the emerging opportunities of the new trading system under WTO. The last section gives an illustrative list of themes, which deserve attention of the professional, researchers in the country.

Chaddha, G.K. (2000)^ has attempted to study about India and the WTO. He proposed some suggestions for internal corrections and external initiatives. He has shown in his study that structurally, the 1990s marked a break from the 1980s, the over ail growth rate picked up very well. Globalization too grew apace. While external trade occupies a fairly respectable place in the economy. But then, the worry spots are equally noticeable, the most serious being the big loss of jobs, most conspicuously in sectors which are likely to be more readily exposed to competition through imports.

Rana, R.K. and Kuldeep, Singh (2000)^ in their study have empirically analyzed India's trade under the WTO. Their studies revealed that, India's entrance in the WTO has been veiy favourable to its external sector, which is quite meaningful for the over all development of the economy. This improvement at the external sector of the economy has manifold repercussions for the rest of the sectors and may solve many of its problems. They also indicated that the Government of India could mop up more benefits from the platform of the WTO. if it had taken some precautions effectively before signing the WTO agreement.

Singh, Sukhpal (2000)'° in his study has focussed the new barriers to trade under WTO. He has also provided the implication of these measures for India's agro food industry and agro exports. He concluded that, at the international level there is need to make WTO system more transparent. What is required, is not end product testing for exports but monitoring of the entire commodity chain to maintain quality and hygiene standards.

Mathur, Vibha (2000)" has attempted to examine the new challenges faced by the Indian economy from WTO. WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth. She indicated that as far as India is concerned, in the short run gains may be unimpressive, but certainly it will pickup in the long run as the reform process gathers momentum.

Guleria, S. Amar and Nagesh, Singh (2000)'^ have worked on "Indian agriculture and its prospect under WTO". They analyzed the impact of GATT, 1994 on agriculture in India. These analysis traces the effects of WTO agreement on economic aspects of wheat production and trade in India. Their study also deals with the TRIPs agreement and brings out the organic link between the Convention on Biological Diversity (CBD), the TRIPs and economics of wheat seeds.

Neela Mukherjee (2000)"" in her study on "WTO and India's Trade Policy in Services", focused the importance of WTO on India's export of services through movement of service providers. Her study identifies potential markets, sectors and sub-sectors for India's service exports mainly by movement of knowledge workers, skilled and semi-skilled persons. The study also declares that, although service providers from industrial countries tend to dominate the world market, there exists considerable scope for India to explore opportunities for exporting services to the markets of both industrial and developing countries. She has suggested that a newly liberalizing country like India is required to adopt policy-driven strategies to tap its market potential in selected services. Her study also suggests supportive measures and policies required by India lo boost such exports in business services, computer software services, travel-related services, transportation services and telecom services.

Satapathy, C. (2000)'" takes a look at the implementation of WTO agreement on custom valuation. His study discusses the problems of custom valuation and the history of various international agreement on the subject.

Chimni, B.S. (2000)'^ in his study of WTO and environment has undertakes a review of two cases brought before the Appellate Body of the WTO, the Shrimp turtle case and the EC-Hormones case. He has examined, that the WTO has gone a long way in integrating environmental concerns with the objective of free trade.

Kumar, Nagesh (2001)'^ has dealt with the WTO's emerging Investment Regime. He analyzed the issues concerning the review of the Agreement on trade related investment measures and the move of the industrialized countries to bring the investment issues on die WTO agenda, from a developing country perspectives.

Bagchi, Sanjay (2001)" in his study on, "India and the WTO, Sectarian interests versus the public good", has shown that an alliance of diverse sectarian interests is claiming that India's acceptance of the results of the Uruguay Round of trade negotiations is threatening the sovereignty of the nation and the supremacy of its parliament.

Ramesh Chand (2002)'^ in his work on "Trade Liberalisation, WTO and Indian Agriculture" has highlighted that, whether present trade scenario has become adverse to Indian agriculture due to implementations of WTO commitments, lower efficiency of Indian agriculture or lack of suitable trade policy and strategy. It also examines whether WTO treaty is unfair to Indian agriculture. His study also analyses the historical nature of international agricultural prices and discusses implications of trends and instabilit)' in these prices for domestic production and policy. Various options available to country to deal with adverse impact of WTO are discussed. Competitiveness of selected agricultural commodities and long-term policy to benefit from trade and to safeguard producers and consumers are also discussed.

Somesh, K. Mathur (2002)'^ in his study, analysed the role of developing countries especially India in the multilateral trading system. He has studied about their prospects and perspectives, reviews some of the provisions of the WTO and also recommends some negotiating strategies for the developing countries.

Mandala, K. Mani (2002)^° worked on WTO and developing countries and focuses the challenges and strategie:s. His study also assesses to identify, understand the special problems of developing countries and workout viable strategies for successful negotiation for an equitable trade regime at WTO.

Nikam, G.A. (2002)^' in his study has analyzed the impact of WTO on India's *sugar industry. In his study,* he mentioned that the sugar *mills* in India are required to make necessaiy changes in the quahty norms of their sugar manufacturing which will help them to become more competitive in the international market. He also analyzed that the Indian sugar industiy is required to concentrate on number of other important areas so as to make it more cost effective as well as more competitive at the global level.

Kumari, Vidya, T. (2002)^^ has worked on WTO and its role as a custodian of intellectual property rights. She seeks to examine the socio-economic and legal perspectives of intellectual property rights.

Sengar, D.S. and Rodney, D. Ryder (2002)^'" have attempted to examine that, how the TRIPs Agreement should be correctly interpreted under international law, in accordance with established rules of treaty interpretation. This study also outlines the reasons why a correct interpretation of the TRIPs Agreement is one that is consistent with the states, superseding obligations under international law to respect, protect and fulfil human rights, including the right to health.

Joy, Ajit (2002)^" in his work on WTO and its Dispute settlement mechanism has argued that, rich countries can still protect and promote their national interest, defying the decisions of such bodies, where as, this choice is not available to developing countries owing to their poverty.

Mohan Das, M. (2002)^^ dealt with the implications of Agreement on Agriculture (AOA) on food security in India. He indicated that the agreement on agriculture provides both opportunities as well as threats to India. He showed that, one important area of threat is food security, but still there is tremendous scope for ensuring food security against all odds through "eco-technological empowerment", efficient use of bio-physical resources, intensive application of biotechnology and through the provision of excellent support services.

Chaturvedi, Sachin and Gunjan Nagpal (2003)'" have analyzed WTO and its product related environment standards. They examined the issues of the linkage in the Indian content between exports from developing countries and the regulatory standards set by developed countiy importers for food safety, quality and environmental norms. This study is also an attempt to analyse the whole issue of translocation of diily industries to India.

Chanda, Rupa (2003)[97] has attempted to study the implications of (GATS) General Agreement on Trade in Services on social policy making. In her study, she highlighted the need to use the ongoing GATS 2000 negotiations effectively so as to strengthen the GATs framwork and address these problematic issues.

Hashim, A. Danish (2005)^^ in his work on Textile and Garment Industry, attempted to examine the factors determining the competitiveness of Indian textile and garment industries. The study suggests that large-scale production should be encouraged in this sector. The study also suggests that disbursement of credit, cheaper raw materials, greater availability of electricity at reasonable rates, promotion of better capacity utilization and flexible labour laws are some other steps necessary to help the cotton yarn and garment industries.

1.7 LIMITATIONS OF THE STUDY:

WTO is a very important Organization on the globe. It has significant role in the overall growth and development of the world economy. It is an indispensable Organization to set the rules necessary for orderly trade liberalization and to translate the economist insights and the potential benefits of freer trade into economic and political reality. It has also a new role, cooperating with the International Monetary Fund and World Bank with a view to achieving greater coherence in global economic policy making. WTO protect the welfare of small and weak nations against discriminatory trade policy actions of large and powerful nations.

But the importance of WTO on the world economy is being hindered by the non-availability of its data. WTO is a new organization. It has completed a few years of its existence. Veiy little could be said accurately. Up-to-date data cannot be presented.

The noiTns and the rules of the game prescribed in the WTO frat¥iewdi"k are not adequate either to avoid the organization of instabilities or to check them.

when they have appeared and got intensified. We can only assume its effect upto some extent. Future global trade seen is also not clear. So at this stage it is too early to predict anything accurately. Secondaiy analysis can be done.

There are numerous asymmetry in the world trading system in terms of both structure and policies. If we consider the services sector, we observe that the policy and poor infrastructural environment are still constraints. The characteristics of these sectors differ between the developed and the developing countries.

In the same manner the analysis of the contentious issues, both quantitative and qualitative is veiy complex, requiring detailed analysis. Non-tariff barriers are difficult to quantify, owing to lack of transparency and problem of identification. Different rates of non-tariff barriers exist. Quantitative restrictions at present apply to about 2700 items.

As advanced countries insistence for the developing countries to have good institutions can neither be justified theoretically. The competitive advantages in the different sectors of industries depend as much on the state of technological advance, capital stock, gains of economies of scale and the price of raw inputs. Developed countries like EU, US, Japan have numerous benefits and advantages then developing countries. If we see our own country, we look that India's active adherence to a multilateral trade and investment regime under the aegis of WTO is an important element of its economic and foreign policy. But there is lack of R&D activity with linkages with industrial application and patenting facilitation. Our investment on R&D activity as a proportion of GDP is one of the lowest in the world^^

It is all these challenges that we will have to grasp if we have to emerge as a major economy and a major power in the first decade of the new millennium. Pit falls and apprehensions are many. The only way to handle the situation is to take required actions on time so that the countiy does not find itself lagging behind in free trade going to be offered by the WTO agreements.

1.8 Plan of the Study:

The study is divided into six ciiapters.

Chapter 1, deals with the conceptual framework and basic issues of the study.

Chapter 2, is an attempt to analyse the various WTO agreements and principles.

Chapter 3, discusses India's merchandise trade under the aegis of WTO.

Chapter 4, is devoted to analyse the role of WTO in India's trade in sei^vices.

Chapter 5, highlights the role of the WTO and FDI in Indian economy.

Finally, in chapter 6, conclusions drawn from the study are made and some suggestions have also been put forward.

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2.1 INTRODUCTION:

The main objective of the WTO is to provide full competitive opportunity of trade among the contracting parties. Its trading system is founded on certain basic principles. The principle of Non-Discrimination requires that all trading partners shall be granted the Most Favoured Nation (MFN) clause. Under the National Treatment, there should be commitment to treat foreign producers and sellers the same as domestic firms. The other fundamental principles are promotion of free trade, predictability and stability to the trading system, promotion of fair competition and special concern for developing countries. It deals in three ways with the special needs of the developing countries. The WTO agreements contain special provisions on developing countries. The committee on Trade and Development keep watch over the special aspects ol" the W TO agreements related to developing countries and the WTO secretariat provides technical assistance for developing countries.

This chapter discusses the basic principles and agreements of WTO. The WTO agreements are a set of rules, which have to be followed by governments in enacting their policies and practices in the areas of international trade in goods and services and intellectual properly rights. There are provisions for iransparenc) *()['* actions. Members have opportunity to consult among themselves." The WTO agreement is described as a "Mini-Charter". It is strictly institutional and procedural in character. It incorporates some 29 individual texts. These are spread over three compartments, viz.. goods, services and intellectual property rights, i he three corresponding agreements are. (a) General Agreement on Tariffs and Trade (GATT), (b) General Agreement on Trade in services (GATS), and (c) The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) (Table-B-I).

There are two more groups of agreements namely. Agreement on Trade Policy Reviews and the Plurilateral Agreements (not signed by all members).

TABLE: B-l

Basic Structure of WTO Agreements

	Goods	Services	intellectual Property	Dispute Settlement
1. Basic Principles	GATT	GATS	TRIPS	
2. Additional details	Other goods agreement and annexes	Services annexes		
3. Market Access Commitments	Countries Schedule of commitments and exceptions	Countries schedule of commitments		

Source: Cherunilam Francis, (1999): "International Economics", Tata Mc Graw Hill Publications, New Delhi. Pg. 202.

Section II of this chapter discusses the transformation of GATT into WTO. In the following sections III. IV. V. VI, Vll. VIII, we summarize various agreements of WTO. Sections IX reviews India's responses to the acceptance of WTO.

2.2 FROM GATT TO WTO:

The General Agreements on Tariffs and Trade (GATT) was a set of rules with no institutional foundations. It was applied on a provisional basis. Its dispute settlement system was also a loose one. The GATT rules, however did not work effectively to absorb the complexities of world trade, which had been growing steadily since the Bretton Woods days, both in terms of commodity coverage and the nature of regulators applied. Further, it did not cover trade in services, which was assuming extreme significance to a member of countries. Agriculture too was outside the GATT purview. Thus, the emerging world trade situation required a WTO to oversee all these. After the 8 year long Uruguay Round of trade negotiations, the new rule-based trading system, with a new apex body the "World Trade Organization' (WTO) came into existence on .lanuary 1, 1995.'

The WTO is a permanent institution. Its commitments are full and permanent. It applied to services and Intellectual propeily also. It has also an improved dispute settlement system. The WTO is equipped with legal authority and provisions for enforcement of the ailes and the disciplines of the new trading system.

The Uruguay Round Produced some 28 agreements with provisions lo establish about 20 bodies to administer them under the Wl^O as the common institutional framework for the conduct of trade relations among more than 120 member governments. It was a good thing that unlike IMF and World Bank, the WTO will have one countiy, one vote. The WTO and its ancillaiy agreements, e.g., revised GATT (regarding tariffs and trade about goods including agricultural commodities), GATS (regarding services), TRlMs (regarding investment), and TRIPs (regarding intellectual Property Rights) and a Provision for cross retaliation between sectors for violation of the prescribed conditionalities were schedule lo come into effect on .lanuary 1. 1995. with a grace period of one year for the LDCs'.

As far as trade in agriculture is concerned, the original GATT was applied to agriculture also, but the application was ineffecli\e. The GATT Accord of 1947. allowed differential treatment for trade in agricultural commodities. Countries could impose quantitative restrictions to relieve critical food shortages, enforcement of domestic marketing and control programmes and provide subsidies to export surplus agricultural products. The WTO recognizes the differential levels of development of member countries and provides lower levels of commitments. The ultimate goal remains complete integration of all economies in a global trading environment with strong rules and enforcement mechanism. The Wl O commitments will increase access of agricultural commodities in the world market".

In regard to the intellectual property rights, the TRIPs would set out the terms and conditions for the international flow of intellectual property. It contains general principles, which expected to be followed by member countries. The agreement links and clarifies the existing international convention on IPRs with international trade. Detailed guidelines are prescribed as to how the international IPR agreements should be applied, how to give adequate protection to IPRs and how to settle disputes on IPRs and so on.

In the area of services also, the agreement has shown some consideration for the concerns and interests of the developing countries. GATS provides a legal framework for trade in services. Trade in services encompasses practically all varieties of services in use the world over.

The WTO agreement upgrades the GATT to the ministerial level under the new dispensation. New agreements seeking to impose fresh obligations on the members can be incorporated by a decision of a two-thirds majority. The GATT of the past worked in the limited confmes of tarilTs. Important decisions will bo initiated and taken at the level oi" ministers. In the past, a ministerial level meeting was a rare event in GATT'. The system is rule based in that in most areas covered by it, there are detailed rules set down on paper, and while some ol'the rules still have a great deal of ambiguity in some areas, the\- are certainly clearer than GATT. It eliminates and makes illegal any scope for unilateral interpretations and determination by any one parly to any agreement.

Whether country should Join the WTO or remain out was debated with the full implications. Both pros and cons were laid out in public. Like the good and bad of everything, there can be good and bad of GATT-1994 or WTO with regard to international trade. No one can say that WTO has no good points at all. nor one can say that WTO has no weaknesses. Whatever may be the intensil\ ol' the debate, there is now no uncertainty about WTO becoming the apex institution for world trade, almost on par with the Brelton Woods institutions such as the World Bank and the IMF.

2.3 GENERAL AGREEMENT ON TRADE IN GOODS fGATT^:

These include elaborate agreements on 12 subjects in the area of trade in goods. These are. Agriculture, Textiles and Clothing, TRlMs, Sanitary and Phyto-Sanitaiy Measures (SPS), Technical Barriers to Trade (TBT), Anti Dumping. Custom Valuation, Preshipment Inspection, Rules of Origin, Import licensing. Subsidies and countervailing Measures and Safeguards.

2.3.1 Agreement on Agriculture (AOA):

The Agreement on Agriculture (AOA) is a part of the GATT-1994 agreement. Before Uruguay Round, agriculture was not the subject of GA T1. but it was brought by the Uruguay Round into the mainstream of WTO negotiation. The broad aim of this agreement is to correct and prevent restrictions and distortions in world agricultural markets. The main provisions of the Agreement on Agriculture (AOA) are related to Improved Market Access. Domestic Support Mechanism, and Export Subsidies.

Article 2, of the AOA consists of agreements on product coverage, applies to the agricultural products, which are listed in Annex i, of the AOA. These include mannitol. essential oils, hides and skins etc. Incorporation of concessions and commitments comes under Article 3, of the AOA. A member shall not provide support in favour of domestic procedures in excess ol'the commitment levels, *imd* the listed export subsidies in respect of the specified agricultural products or group of products in excess of the budgetary outlay and quantity commitment levels.

Market access concessions contained in schedules relate to binding and restrictions of tariff and to other market access commitments as specified there in (Art.4). It conceives of the replacement of non-tariff barrier measures by tarilTs. which provide almost the same level ol'protection. Tariff which results from this process and other tariffs on agricultural products are to be reduced by an average of 36 percent over a period of 6 years in case of developed countries, 24 percent (2/3rd of 36%) over 10 years in case of developing countries. Least developed countries (LDCs) are not required to reduce their tariffs."

Article 6 and 7 of Agreement on Agriculture (AoA) contains Domestic Support Commitments. The AoA defines two types of domestic supports, one with minimal or no distortive effects on trade and the other having trade distorting effects. The former is often referred to as the "Green Box Measures" and the later as "Amber Box Measures".^ The Domestic Support is measured in terms ol" the Total Aggregate Measure of Support (Total AMS). This is the total amount of support given to each categoiy of agricultural product. The Green Box Policies are excluded from reduction commitments.

If the price support is not based on differential market prices, the AMS is the amount of the government's budgetary outlay.

While the agricultural agreement leaves the actual percentage reductions ol' domestic support to be specified in the schedule of commitments, it contains a number of exclusions from the reduction requirements, such as, set of exclusion allow support provided generally to the agricultural sector and only indirectly benefit producers.

Export Competition Requirements (Arts.8 to 12) under the agricultural agreement prohibits its countries iVom providing export subsidies measured in terms of budgetary outlays and quantities subsidized in excess ol" the lc\cls specified in a country's schedule of commitments.

In keeping with the recognition that differential and more favourable treatment for developing countr}' members is an integral part of the negotiation, special and differential treatment in respect of commitments shall be provided as setout in the relevant provisions of this agreement and embodied in the sciiedule ol" concessions and commitments (Art. 15).'^

As per Article 17 of AOA, A committee on agriculture is established. AOA has also made references to Non-Trade Concerns (NTCs) that would have to be taken on board while the agreement is being implemented by the WTO member countries. These NTCs include food security and the protection to the environment among others.'"

2.3.2 Agreement on Textiles and Clothing:

From 1974 onwards, the Multi Fibre Agreement (MFA) took over the textile trade. Through the MFA. industriahzed countries established quotas on imports of textiles and clothing from the competiting developing countries. This agreement is intended to setout provisions, to be applied by members during a transitional period for the integration of the textiles and clothing sector into GATT, 1994.

All quantitative restrictions within bilateral agreements in force under MFA on the day before the entry into force of the WTO agreement (i.e. 1.1. 95) within 60 days shall be notified to the Textile Monitoring Body (TMB). The existing trade restrictions, based on the MFA are to be phased out into four stages (tlie reference point is the 1990 import Volume):

1. at least 16% on l,Jan" 1995.
2. at least a further 17% on 1. .Ian' 1998.
3. at least a further 18% on .Ian' 2002, and
4. the remaining trade barriers are to be removed by 1 .lanuary 2005.

TABLR : B-2

Integration of Textiles Trade

Jan 1. 1995	16 Percent	(of its total volume of imports in 1990)
.lan 1, 1998	Further 17%	(of its total volume of imports in 1990)
-lan 1,2000	Further i 8%	(of its total volume of imports in 1990)
.lan 1, 2005	All remaining Products	(of its total volume of imports in 1990)

Source: Richard Senti. Patricia Colam (1998): "Regulation of World Trade after the Uruguay Round". Zurich. Pg. 73.

On .lanuary 1. 2005. MFA are fully phased out.

The WTO members shall also take necessary action to achieve improved access to markets for textiles and clothing products, ensure the fair and equitable trading policies to avoid discrimination against imports in the textiles and clothing sector. Under Article 8, of the agreement a Textile Monitoring Body (TMB) is to be established to supervise the implementation of this agreement and to examine all measures taken under this agreement. Whenever the TMB is called upon to make recommendations, it shall do so within a period of 30 days. The council for Trade in Goods shall conduct a major review before the end of each stage of the integration process to oversees the implementation of this Agreement. The TMB shall develop its own working procedures.

2.3.3 Agreement on Trade Related Investment Measures (TRlMs):

The WTO Agreement on Trade Related Investment Measures (TRlMs) is one of agreements covered under Annex I A to the Marrakesh agreement, which was signed at the end of the Uruguay Round. TRlMs refers to certain conditions or restrictions imposed by a government in respect of foreign investment in that country. According to Article 1, of TRlMs agreement, this is applied only to investment measures related to trade in goods.

The agreement addresses investment measures that are trade related and that also violate Article III (National Treatment) or Article XI (General elimination of quantitative restrictions).

All types of performance requirements, such as exports obligations and technology transfer requirements that are imposed by governments are consistent with the provision of the agreement and can be employed. Where as the following TRlMs are considered as inconsistent,

1. Local content requirement, which refers to a certain amount of local inputs be used in products.
2. Trade balancing requirement, indicates that imports shall not exceed a certain proportion of exports.
3. Trade and foreign exchange balancing requirements.
4. Domestic sales requirements need that a company shall sell a certain proportion of its output locally'".

Some attentions are drawn in regard to TRIMs. such as there is no requirement in tlie proposals to give a preferential treatment to foreign investors, and would be subject to some restrictions. Government ability remains unimpaired to impose export obligation on foreign or domestic investors etc.

It is required that the trade related performance requirements imposed by the host countiy governments on foreign affiliates are notified within 90 days of the agreement coming into force and should be eliminated in a phased manner. The transition period allowed for industrialized countries are 2 year whereas ibr developing and LDCs, the limits are 5 and 7 years respectively. These duration may be extended for developing countries and LDCs, if requested '.

Under Transparency Requirements (Art. 6) each contracting party shall notify the secretariat of the publication in which TRIMs may be found and those which are applied by the regional and local governments and authorities within their territories. A committee open to all WTO members shall also be established. The Council for Trade in Goods assigned responsibilities to it. It shall review the operation of the 'fRIMs. no later than 5 years after the date of enlr\' into Ibrcc of the WTO agreement. The agreement allows the provision for dispute settlement understanding, which shall apply to consultations and the settlement of dispute under the TRIMs.

2.3.4 <u>Agreement on Sanitary and Phyto-Sanitaiy (SPS) Mensiiies:</u>

The Agreement on Sanitary (human and animal health) and Phyto-sanilary (Plant health) measures seeks to protect consumers by providing rules lor Ibod safety and health of plants and animals."'^

Because of a concern among agricultural exporters that the hard won benefits to them from the agriculture agreement would be reduced by current farm protectionist measures being replaced by alternative measures such as quantitative restrictions, an agreement on Sanitaiy and Phyto-Sanitary (SPS) measures was negotiated. The SPS agreement seeks to ensure that any such SPS import restrictions are imposed only to the extent necessary to ensure food securil\' &

safety and animal and plant health on the basis of scientific information and are at the least trade restrictive measures available to achieve the risk reduction desired "\

This agreement applies to all SPS measures, which may directly or indirectly affect international trade. SPS means any measures applied,

1. to protect animal or plant life or health from risks arising from the entry, establishment or spread of pests, diseases, disease canying organisms or disease causing organism,
2. to protect human life or health from diseases carried by animals, plants, or products, and
3. to prevent or limit other damage. .

SPS include all relevant la^vs, decrees, regulations, requirements, certillcations, packaging & labelling requirements, etc. which are directly related lo the food safely.

In order to harmonise SPS measures on as wide a basis as possible, the SPS agreement favours international standards. The agreement allows member lo introduce or maintain SPS which result in a higher level of protection than would be achieved-based on relevant international standards. "

If the members wish to apply more stringent measures than the international standards, then they are obliged to base their risk assessment and level of SPS protection on scientific evidence and their levels should not be more trade restrictive. The transparency of the agreement requires the member to ensure that all SPS measures and changes in them are notified in a transparent manner, through a single national enquiry point' .

Under Article 9, of the agreement, members agree to facilitate the provision of technical assistance to other members. A committee on SPS measures ma}' be established to provide a regular forum for consultations. The least developed country members may delay application of the provisions of this agreemenl for a period of 5 years, following the date of entry into force of the WTO agreement with respect to their SPS measures, affecting importation on imported products. This duration for other developing countiy members, other than paragraph 8 of Article 5 and Article 7, are 2 years.

2.3.5 Agreement on Technical Barriers to Trade (TBT):

In order to avoid the trade restrictive effects of technical regulations and standards, and with a view to improving cooperation between the individual contracting parties in the elaboration, adoption and application of technical requirements, an agreement dealing with Technical Barrier to Trade (TBT) was concluded in the course of the Tokyo Round. This agreements reworked and extended, is now part of the new world trading system.

This agreement on TBT makes differentiation between technical regulations, technical standards and specifications. The agreement on product characteristics or their related processes and production methods comes under technical regulations. It may also include or deal exclusively with terminology, symbols, packaging, marking or labeling requirements as they apply to a product, process or production methods.

Standard is a document approved by a recognized body, that provides for common and repealed use. rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory. The specification and assessment of a product refers to the level of quality, the performance, the packing, the identillcation or the description of the product.""

The objectives of TBT agreement are retention of MFN and the principle of national treatment, transparency of regulations and norms, cooperation between the members, harmonization of the measures adopted and uniform dispute settlement procedure within the WTO IVamework.

Technical regulations shall not be more trade restrictive than necessary to fulfil a legitimate objective which includes national security requirements, etc.

with a view to harmonizing technical regulations on as wide a basis as possible, member shall conduct a full part within the limits of their resources. The WTO member shall ensure that their central government standardizing bodies accept and comply with the code of good practice for the preparation, adoption and application of standards. The members shall formulate and adopt international systems for conformity assessment.

Developing country members shall receive differential and more favourable treatment by other members to this agreement. A committee on TBT is established. The members can consult on any matters relating to the operation ol" this agreement. There also exists a dispute settlement body to deal with the problems relating to this agreement. Article 15. of this agreement allows the committee to review annually the implementation and operation of this agreement.

2.3.6 A<u>preement on Anti-l)iimpiii<;:</u>

In an era of open trade and globalization, antidumping has acquired a special significance, primarily as a means of checking unfair trade practices and promoting fair competition. It is essentially a mechanism of defence, provided for under Article VI. of GATT 1994 and allows all member countries to appl> antidumping measures wherever warranted for protecting their domestic indusir\' from unfair competition."^

Anti-dumping measures can be unilaterally imposed by a WTO member on an imported product, provided the imported product is dumped, and it is causing material injury to the domestic industry, and there is a casual link between the dumped imports and material injury. When an exporter sells a product at a price less then the price prevailing in its domestic market, it is said that dumping has taken place. The amount of anti-dumping duty cannot exceed the margin of dumping, which is calculated as the difference between the normal value and the export price of a product. Material injury is defined as material injury itself threat of material injuiy, or material retardation of the establishment of a domestic industiy. For the purpose of determination of injury, the anti-dumping agreement requires an objective examinalion, such as, of the volume of the dumped imports on prices in the domestic market for Hlce products etc.

The domestic industry is defined as producers of a "lilce product'*. The agreement establishes the requirements for the initiation of investigations. No provisional measures may be applied sooner than 60 days after initiation of an investigation.

Article 10, of the anti-dumping agreements establishes the general principle, that both provisional and final antidumping duties may be applied onl\ as of the date on which the determinations of dumping, injury and causality have been made. There are provisions for judicial review under Article 13, according to which, each member whose national legislation contains provisions on anti-dumping measures shall maintain judicial, arbitral or administrative tribunals or procedures for the purpose, while considering the application of antidumping measures of the developing countries, the developed countries must provide special regards to their special situation" .

A committee, consisting of representatives from each of the members, on anti-dumping is established, fhe dispute settlement understanding of the anti-dumping agreement is applicable to consultations and the settlement of disputes, fhe final provisions of the anti-dumping agreement requires the member to bring their laws into conlbrmity with the anti dumping agreement by the date of entry into force of the anti-dumping.

2.3.7 Agreement on Custom Valuation:

Custom value of imported goods refers to the value of goods for the purpose of levying advalorem duties of customs on imported goods. The decision on custom valuation would give customs administrations the right to request further information of importers, where they have reason to doubt the accurac> of declared value of imported goods.

The agreement on custom valuation setout five methods of establishing customs valuation as well as a catch all clause. These are as follows:

Method 1: The custom value of the imported goods is the transaction value, i.e.. the price actually paid (including any commission and packing).

Method 2: If the price actually paid cannot be determined, the custom value is the transactions value of identical goods, which have been imported under the same competitive conditions.

Method 3: If neither of the ilrst two methods is appropriate, the custom value will be the transaction value of similar products.

Method 4: If none of the fust thr.ee methods can be applied, it will be ascertained according to the selling price of the product in the country of importation, excluding the appropriate relevant costs and reasonable prolli margin.

Method 5: The custom value corresponds to the sum of the production costs. trade margin in the country of exports as well as the related costs reierred to in the Ilrst method above. If the actual customs value of a product cannot be established by means of one of the live abo\e methods, the authorities will determine the value by taking into account the all relevant factors into account" .

All the confidential information shall not be disclosed without the specillc permission of the person or government who gives such information, 'fherc also exists a committee on custom valuation, A period of live years are provided to non industrial countries, in case, she delays, application of the provision of the agreement. The committee shall annually inform the council for trade in goods of development during the period co\ered by such reviews.

2.3.8 Agreement on Pre-Shipmeiit Inspection:

Pre-shipment Inspection (PSl) is the practice of employing specialized private companies to check shipment details, essentially price, quantity. c]ualit\ of goods ordered overseas. As per the agreement, all preshipment inspection activities carried out on the territory of members, whether such activities are contracted or mandated by the government, or any government body of a member.

There are various obligations for user members such as. non-discrimination, which requires that the user member shall make sure that the pieshipment inspection activities are carried out in a non-discriminatory manner. User member shall also ensure that all preshipment inspection activities are performed in the custom territoiy in which the goods are manufactured. Unreasonable delays in inspection of shipments should be avoided, etc.

There also exists some obligation for exporter members, which relates to non-discrimination principle, transparency and technical assistance. The agreement provides for the establishment of independent review entities to deal with disputes. Member shall submit the copies of laws and regulations to ilic secretariat by which they put this agreement into ibrce, as well as copies of any other laws and regulations relating to preshipment inspection.

The Ministerial conference shall review the provisions, implementation and operation of this agreement and based on this review, it may amend the proxisions of the agreement. There are also provisions of dispute settlement understanding, where any dispute among members regarding the operation of this agreement can be settled".

2.3.9 Agreement on Riiles of Oripjii:

'fhe clear and predictable rules of origin and their application faciliiaic liic How of international trade. The rules of origin are those laws, regulations and administrative determinations of general applications, applied by any member to determine the country of origin of goods. These rules of origin shall include all rules of origin used in non-preferential commercial policy inslrumcnl. ami-dumping a/ul countervailing duties, safeguard measures, origin marking requirements and an\ discriminatory quantitative restrictions or tariff quotas.

Member shall take some disciplinary measures during their transition period and shall also follow some rules after their transition period. Member shall make sure upon the implementation of the results of the harmonization work programme such as. that they apply rules of origin equally for all purpose.

Article 4 of this agreement assigns responsibility Ibr the implemenialion of the technical annexes to the committee on rules ol' oriuin. The commiiiee shall review annually the implementation and operation ol'the agreement having regard to its objectives. Until the completion of the harmonization programme, contracting parties would be expected to ensure that their rules of origin do not have any restricting, distorting or disruptive effects on international trade, etc.

The committee and the technical committee shall be the appropriate bodies to conduct the work programme. The results of the harmonization work programme and subsequent work shall be established by the ministerial conference in an annex as an integral part of this agreement.

This agreement on rules of origin contains at the end two more Annexes. One contains the responsibilit)' and representation of the technical committee on rules of origin. The other one consisted of the content of common declaration with regard to preferential rules of origin"'.

2.3.10 <u>Agreement on Import Licensing:</u>

Import Licensing is the administrative procedures used for the operation of import licensing regimes, requiring the submission of an application or other documentation to the relevant administrative bod\ as a prior condition for importation into the customs territory of the importing member, fhe rules for import licensing procedures should be neutral and fairly administered in equitable manner. It must be published before 21 days to the effective date of requirement.

Under Automatic Import licensing, approval for the application is granted. It may be necessar)'. whenever other appropriate procedures are not axailable. The provisions, which do not come under automatic import licensing procedures, are referred to as Non-automatic import licensing. It should not have an> trade restrictive or distortive effects on imports except those, caused by the restriction imposed.

Each Member is required to publish suflicient information ibr other members and traders to know the basis for granting and allocating licenses. Any person, firm or institution who fulfils the legal and administrative requirements of the importing member will be equally eligible to apply and to be considered for a license. A committee is also established on Import licensing, which aflbrcis members the opportunity of consulting on any matters related to the operation of this agreement. The implementation and operation of this agreement shall be reviewed by the committee, at least once every two years, and as per they needed. The operation of this agreement shall be subject to dispute settlement understanding.

Under the final provisions of the agreement, no provisions will be granted reservations without the prior consent of the other members. Each member shall ensure the conformity of its laws, regulations and administrative procedures with the provisions of this agreement, not later than the date of entiy into force of the WTO agreement for it. Any member who brings about changes in its laws and regulations relevant to this agreement must inform the committee" .

2.3.11 Agreement on Subsidies and Coiiiitervailhip Measures:

A subsidy is defined as the financial contribution by a government or any public body, in the form of a direct transfer of funds or other stale measures. which promote exports and give an advantage to domestic goods over imports, fhe main recipients of subsidies in individual countries are unquestionably agriculture, mining, textiles, and ship building.

This agreement differentiates between specific and non-specific subsidies. Those subsidies which are directed at a defined industry or industries or to an enterprise or group of enterprises excluding any third parties, arc specific subsidies. On the other hand. Non-specific subsidies apply to all enterprises provided they fulfill certain conditions, which are known in advance. The main thrust of the agreement is specific subsidies. The agreement describes three types of subsidies, viz.. (a) Subsidies automatically prohibited, (b) Actionable subsidies, i.e.. subsidies which are prohibited to a degree and (c) Non-actionable subsidies, i.e.. which are allowed. The prohibited subsidies include, those contingent, in law or infact, whether solely or as one of several other conditions, upon export performance, and those contingent, wiiether solel>' or as one ol" several other conditions, upon the use of domestic over imported goods.

Actionable subsidies are prohibited to a degree. Under this, no nicniber should cause, through the use of subsidies, adverse effects to the interests of oilier signatories. Where as. Non-actionable subsidies could either be non-specillc or specific subsidies involving assistance to industrial research and precompetitixe development activity, assistance to disadvantaged regions, etc. Whenever other member believes that this non-actionable subsidy is producing serious ad\crsc effects to a domestic industry, may seek a determination and recommendation on the matter.

Article 10 to 23 of this agreement includes countervailing measures. One part of this concerns the use of countervailing measures on subsidized imported goods. The agreement declares that, in cases where the subsidies amount to less than 1% of the value of the product or where the injury is due to an oversight, the investigation should be curtailed. A countervailing duty shall remain in force onl\ as long as and to the extent necessary to counteract subsidization which is causing injury"\ Under the agreement, a coiiimittee is established on subsidies and countervailing measures, containing representatives from each of the members.

Under the other provisions related to this agreement, any specific subsid\' granted within the territories shall be notified by the members. .Special and differential treatment of developing countries is provided.

2.3.12 <u>Agreement on Safeguards:</u>

The agreement on safeguards establishes rules for the application of safeguard measures provided for in emergency action on imports of particular products (Article XIX of GATT). It contains 38 paragraphs. If a domestic indusirs is threatened with serious injury, members may take safeguard actions, i.e.. import restrictions, to protect a domestic industiy from the negative effects of an unforeseen import surge. But, once the Uruguay Round liberalized imports and prohibited grey area measures, protectionism began to surface througli niui-dumping and countervailing duties and the safeguard agreement.

A member may apply safeguard measure to a product only if that member has determined, pursuant to the provisions, that such product is being imported into his territoiy in such increased quantities, absolute or relative to domesiic production, and under such conditions as to cause serious injury to the domestic industr)' that produces like or directly competitive products"'. The safeguard investigation requires public notice for hearings and other appropriate means for interested parties to present evidence, etc. The safeguard measures should be applied only to the extent necessary to prevent or remedy serious injury and lo facilitate adjustment.

The agreement also allows member to apply provisional safeguard measures through tariff increases, and will not last for more than 200 da}s. As per the time limits requirement, all safeguard measures should not exceed 4 years. except under some exceptional cases, upto a maximum oi" 8 years. The agreement also envisages consultations on compensation for safeguard measures" .

There are provisions of special and differential treatment with respect lo application of safeguard measures against developing countries. A developing country member has the right to extend the period of application of a safeguard measure for a period of upto 2 years beyond the normal maximum.

A member shall immediately notify the committee on safeguard, if he initiates an investigatory process relating lo the serious injury or threat, there of. and the reasons for it. making a fniding of serious injury and taking a decision to apply or extend a safeguard measure. An>' member who is taking pro\isic)nal safeguard measures should also notil'y the committee related to it. A committee on safeguard is established. The committee will carryoul the surveillance function on safeguard measures. The usual dispute settlement mechanism will appl>' as per Article 14, of this agreement.

2.4 GENERAL AGREEMENT ON TRADE IN SERVICES (GATS):

The Uruguay Round widened the scope ormullilateral trade negotiations to include services for the first time in the history of trade negotiations. The outcome of these negotiations was the General Agreement on Trade in Services, or GA IS. which entered into force on .lanuaiy 1, 1995, with a set of binding rules and disciplines to promote "orderly" aiid "transparent" trade and investment liberalization in services. The agreement consists of VI parts, XXIX Articles and 8 Annexes. The GATS is a comprehensive legal framework of rules and disciplines, covering 161 service activities across 12 classified sectors. These consist of as wide ranging as telecommunications, financial, maritime. energ\. business. education, environment, and distribution services.

Part 1 of the basic agreement defines its scope. specificall\ serxiccs supplied from the territoiy of one party to the territoiy of another, services supplied in the territory of one party to the consumers of any other (for e.g. tourism), services, provided through the presence of service providing entities ol" one party in the territoiy of any other (for e.g. banking) etc." GATS consists of three major sections, i.e., general obligations, specific commitments and commitments in specific sector such as financial services, leiecomnuinications. air transport and also has provisions applicable to labour.

Part 11 (Arts. II to XV). sets out general obligations and disciplines, among which Most Favoured Nation (MFN) obligation prevents countries from discriminating among foreign suppliers of services. However, parties may indicate specific MFN exemptions, as MFN treatment may not be possible for e\er\ service activity.

The third obligation is the transparency requirements, according to which each member countiy shall promptly publish all its relevant laws and regulations, pertaining to services including international agreements, pertaining to trade in services to which the member is signatory. The increasing participation ot developing country members in world trade shall be facilitated tiirough negotialctl specific commitments. Least developed country members shall be provided specific priority. GATS allows countries to enter into regional integration agreements, liberalizing trade in services. It also requires domestic regulation *oi* services to be based on objective criteria, such as competence to provide the services should not be more burdensome than necessary to ensure the quality ol a service.

This agreement contains obligations with respect to rccognilion requirements (educational background, for instance) for the purpose of securing authorizations, licenses or certifications in the services area, through harmonization and internationally agreed criteria. Further provisions state that, parties are required to ensure that monopolies and exclusive services providers do not abuse their positions. There shall be multilateral negotiations on the question of emergency safeguard measures based on the principle ofnon-discriniination."

Part III of the agreement comprises of specific agreements. The commitments also include national treatment, i.e.. to treat foreign national (suppliers) of services like domestic suppliers and provision of market access. 1 he intention on the market access provision is to progressively eliminate the types of measures, such as. limitations on members of service providers, on the total value of service transactions and so on.

Part IV of the agreement consists of articles XIX to XXI. establishes the basis for progressive liberalization in the services through successive rounds ol" negotiations, and the development of national schedules.

Part V of the agreement contains institutional provisions, including consultations and dispute settlement and the establishment of a coLincil *ow* services. GATS also set-forth certain requirements applicable in specific sectors:

1. The tlrst of the annexes to the agreement concerns the movement *oi'* labour.
2. It also provides financial services. A financial service is any service of a financial nature oiTered by a financial service supplier oi" a member, fhesc include insurance, banking and services provided by other financial

institutions, either by the private sector or by the public sector. Services supplied in the exercise of' governmental authority shall not be covered by the agreement. A country must allow its residents to purchase financial services in the territory of another countiy.

Ministerial meeting has established a committee on financial services to monitor the progress on liberalization in the field and to report it periodically.

3. Protocol on basic telecommunications was signed on 15" February. 1997 It has become effective from Jan 1, 1998.

Telecommunications means the transmission and reception of signals by any electromagnetic means. Public telecommunications services include, interaba. telegraph, telephone, telex and data transmission. The annex *on* telecommunications relates to measures which effect access to and use of |)ublic telecommunication services and networks. In particular, it requires that such access be accorded to another party, on reasonable and non-discriminatory terms, to permit the supply of service included in its schedule' .

4. The Annex on Air-transport services. It excludes from the agrecnicnis coverage tratTic rights and directly related activities, which might effect the negotiation of traffic rights. GATS instead applies to airline maintenance and repair, computerised reservation services and the marketing of air uanspori services, fhe actual requirements with respect to air iranspori will *be* specified in a country's schedule of commitments.

2.5 <u>Agrecineiif on Trade Relafcd Aspects of liifellectual Property Ki<fh(s:</u>

The broad objective of the Agreement on Trade Related Aspects of Intellectual Property Rights (fRIPs) agreement is to let individual countries reap the exclusive fruit of human intellect originating in their local traditions. Scientillc discoveries and research work experience and so on. When countries compete for mobile technological knowledge, property rights become important, fhese relate to ail sorts of intellectual property, copy rights and associated rigiits. trademarks.

industrial designs, patents, the layout designs of integrated circuits and geographical indications (like appellations of origins)' .

The agreement on TRIPs forms an integral part of the GA'f'f. Urugua>' Round and the draft final act was signed in December 1993 and the pact was signed in Marrakesh on April 15'", 1994. TRJPs like other WTO agreements, is an agreement on a legal framework. The agreement on TRIPs consist of 73 Articles in VII Parts. The IPR are private rights, but there is need for a multilateral framework of principles, rules and disciplines dealing with the IPR (intellectual property rights).

Part I of the agreement sets out general provisions and basic principles. As a matter of protection of intellectual property, any advantage, favour, priviledge or immunity granted by a member lo the nationals of any other counU) musi be accorded immediately and unconditionally to the nationals of all other members. The objective of TRIPs, to bring into the ambit of the WTO. is to contribute to the promotion of technological innovation, transfer and dissemination of the knowledge to the mutual advantage of producers and users in \\a\ as to cicak- a Ian" social and economic global order'".

Part II. of the agreement addresses each intellectual property rights in succession. With respect to copyright, contracting parlies are required lo comply with the substantive provisions of liie Berne conxenlion for ihc protection of literaiy and artistic works. Computer programmers are to be protected as lilerar> works.

With respect.to trademarks and service marks, the agreement detlnes the types of signs ihat must be eligible for protection as a trade or ser\ ice mark and ihe minimum rights conferred on the owners.

In respect of geographical indications, the agreement lays down that all parties must provide means to prevent the use of any indication, misleading the consumers as to the origin of goods and any use constituting an act of unfair competition, which are protected even where there is no danger of the pubhc"s being misled as to the true origin.

Industrial designs are also protected for a period of 10 years. The agreement requires that 20 year patent protection be available for all inventions, whether of products or processes, in almost all fields of technology. Members also agree to provide protection to the layout designs of integrated circuits. Protection on layout design must be available for a minimum period of 10 years.

Finally, in the TRIPs agreement section on controlling anii-conipciiii\c practices in the licensing of patented inventions, provides that WTO members are free to define in their own legislation, what licensing practices or conditions shall be treated as an abuse of IPR and may adopt appropriate measures to prevent or control those practices"""".

Part 111, of the agreement, sets put the obligations of member governments to provide procedures and remedies under their domestic law to ensure that IPR can be effectively enforced, by foreign right holders as well as by their own nationals. Laws and regulations and llnal judicial decisions and administraliw rulings of general application, made effective by a member pertaining to the subject matter of this agreement shall be published or made publicly available.

Under the transitional agreement, it has been agreed to provide a one-year transition period for the developed countries, to bring their legislation and practices into conformity with the agreement. The transition period for developing countries is 5 years, and for the LDCs. it is 11 years. Developing countries, which do not provide product patent protection in an area of technology have been permitted a period of 10 years to introduce such protection.

Under institutional arrangements, the council of fRlPs shall monitor ihe operation of this agreement and in particular member's compliance with their obligations here under, and shall afford members the opportunity of consulting on matters relating to the TRIPs.

2.6 Agreement on Dispute Settlement Undertaking:

As the central pillar of the multilateral trading system and the WTO"s most individual contribution to the stability of the global economy, its function is to provide security and predictability to the multilateral trading system. It preserves the rights and obligations of the members under the covered agreements. The understanding on rules and procedures governing the settlement of disputes (DSU) was the agreement through which the dispute settlement mechanism under the new WTO was established"".

The dispute settlement mechanism under the WTO is the subject matter of chapter 27. under section V. it has 26 separate articles and is covered under Annex 2 to the WTO agreement. It spells out the general provision for a unified dispute settlement mechanism. Countries bring dispute to the W'fO if their rights *under* the agreements are being infringed"'^, fhe W'fO members are committed not lo take unilateral action against a trading partner but rather to seek recourse through the WTO Dispute Settlement Body (DSB) and to abide by its rules and llndinus. The DSB shall have the authority to establish, and adopt panel and Appellate Bod) reports.

Under the condition of a request lor consultations, the members to which the request is made, shall reply to the .request within 10 days and shall be eiUcr into consultations in good faith within a period of no more than 30 days. I he complaining party may request liie establishment of a panel if it exceeds 60 cla\s without any settlement. For perishable goods, this limit should not exceed 10 days. Panel reports may be considered by the DSB for adoption 20 days after lhe\ arc issued to members.

There is an Appellate Body, composed of se\'cn niembers. (o hear appeals. This bod\- is to consider only issues of law and legal interpretations by the panel, and it too issues a report, which must be accepted by unanimous decision of the DSB. Appellate proceedings shall not exceed 60 days from the date a party formally notifies its decision to appeal.-In no case shall the proceedinu c\cceil 'H) days. The dispute settlement procedure should be completed within 9 montlis, or the event of an appeal, within 12 months.

Expeditions arbitration, as an alternative means of dispute settlement within the WTO can facilitate the solution of certain disputes that concern issues that are clearly defined by both parties.

Thus, the WTO procedure for resolving trade quarrels under the Dispute Settlement Understanding (DSU) is vital for enforcing the rules and therefore for ensuring that trade ilows smoothly.

2.7 **The Trade Policy Review Mechanism:**

The WTO Trade Policy Review Mechanism (TPRM) was promoted b>' the FOGS (Functioning of the GATT system) negotiating group in the Urugua\ Round. Began on a trial basis during the Uruguay Round, the WTO reviews each country's policies on a regular basis, once every two years in the case of the i-.li. the USA, .lapan and Canada, every lour years in the case of next 16 biggest traders, and every six years in the case of others, except for the smallest and poorest developing countries where the interval may be longer.'" The fPRM purpose is to improve transparency, to create a greater understanding <>\ liic polices that countries are adopting and to assess their impact. All WTO members must undergo periodic scrutiny, each review containing reports by the country concerned and the WTO secretariat. The TPRM einisages the establishment of the Trade Policy Review Body (TPRB). In order to aciiievc lull lransparenc>. each member shall report regularly to the TPRB about the trade policies and practices pursued by it.

The review enables the TPRB to conduct a collective examination ol" the lull range of trade policies and practices of each WTO member countries at regular periodic intervals to monitor significant trends and developments, whicii may have impact on the global trading system. Two separate documents are prepared for each review, a policy statement by the government of the member under review, and a detailed report written independently by the WTO secretarial.

The iwo documents are then discussed by the WTO full membership in liie Trade Policy Review Body (TPRB)/**

2.8 The Plurilateral Agreement:

The Pluritateral Trade Agreements consist of the Agreement on Trade in Civil Aircraft, Agreement on Government Procurement, International Dair> Agreements and International Bovine Meat Agreement. The first agreement was signed at Geneva in April, 1979. It was subsequently modified, rectified and amended. The later three agreements were done at Marrakesh on April 15. 1994. which was not signed by all members' .

One of the purpose of the plurilateral agreement is to provide countries an outlet for their surplus output. This agreement may be conducted if a counir\ wants access to a scarce material available in the other country.

There was an agreement to eliminate import duties on ci\il aircraft and ihc bulk of aircraft parts.

The Tokyo Round was responsible for the conclusion of an agreement on government procurement. This agreement is designed to i'acilitate wider membership of developing countries. It en\isages consultations between liic existing members and applicant governments, fhe government procurement negotiations had three objectives, i.e.. to extend the coverage of the agreement to services (at present it covers only goods), to broaden the application of the agreement by bringing in sub-central level of government and central public utilities, and to improve the existing text of the agreement. It contained deiaiicd rules on the \s'a\' in which tenders could be inxited and awarded.

In the field of agricultural products, the Tokyo Round of trade ncgotialiojis arrived at two significant agreements nameh'. the agreement regarding Bo\ ine Meat and the International Dairy Arrangement. Both these agreements aimed at expansion and liberalization of world trade in meat, live stock and dairy products. Two International bodies oversee these arranoemenls. fhe International Meal

Council looks after the arrangement regarding Bovine meat, wiiere as (he International Dairy Products Council over see the dairy arrangement '.

2.9 **India's Response to the Acceptance of WTO:**

The Government of India was one of the signatories to the proposed reform of the GATT. following the Uruguay Round discussions, culminating in Cicncx a on December 15, 1993. A special session of two days (29"' and 30"' March 1994) was called and the parliament discussed the matter of GATT- 1994. In parliamentary histoiy never such an event has occurred when the whole opposition was avowedly on one side. Except for the party in power, eveiybody decried WTO and warned the government not to accept it. Ofcourse, everybody opposing, did not deter the government and they had gone ahead with the programme. On April 15, 1994, the Commerce Minister Sri Hranab Mukherjee signed the acceptance of WTO at Manakesii in Morocco.

There were some technical issues of trade involved in judging whcllicr India should accept the WTO or not and what its options are. But the subject was not one of mere economics, but one involving a complex set ol" issues that fall in the arena of political economy. It has never happened since independence tiial politicians have shown so much of unity for a cause. Inside and outside parliament, politicians except the party in power, had vied with each other to condemn WTO. The government was campaigning very hard for mobilising support in parliament. Although it had requisite support in the Lok Sabha. it had problem in the Rajya Sabha. The basic issue in India was the same as in ihc liS. namely the sovereign power of the parliament (or the congress). Many of the Indian MPs felt that.the Tokyo Round was better for developing countries and the Uruguay Round was a great surrender to the developed countries. The conditional ties was that the new GATT-94 (that is WTO) will impose upon India, policies regarding agriculture and IPRs in particular and the novel provision of cross retaliation between quite unrelated sectors like goods, services, investment and patent rights were dangerous traps for the developing countries. It will only help

Strengthen the position of the developed countries and tlieir TNCs (Transnational Corporations) and retard the desired development of most of the developing countries. This would bring neo-coloniahsni through the back door ". Thus, whether India should join the WTO or remain outside was the matter of hot discussions. Now we are going to present some view points put forwarded b\ Government, Politicians, hiteilectuals. Public men. Medias etc. fhere were sonic people who were convinced of the desirability of India to accept WTO. while there were other who were more convinced to the negative aspects of WTO.

First of all, we are going to present the view point which were in favour of India's acceptance of WTO.

In India, the Government. Congress Party and some Sympathisers and admires were in favour of W'fO. These optimists were of the view that global competition would force us to develop strength and abilil>' to compete and we are bound to gain from the liberalization, caused bv WTO. As far as the Go\ i. ol" India is concerned, there was hardly anything, which could show that it was not lliliy in favour of being in the WTO. They had accepted W'fO and their status w as as a "Contracting Party" of WTO. At the sametime. specially the two ministers of the Central Govt.. Pranab Mukherjee and Balram .lakhar had \aguely dcclarctt iliai things would never be permitted to go against the farmers.

Among the people who were convinced of the desirability of India to remain under the WTO. Prof. Khusro was optimistic about the outcome and consequences of GATT-1994. Khusro thought that the gains through WTO would be 80, if the losses are to be 20. For him, those who oppose WTO, are ignoring the long term interests of India's international trade. in\estment and economic relations. On sovereignty question, he had opinion that all international issues would be settled through some marginal-adjustment in the so-called sovereignty."

Similarly, the then Director General of the National Council of Applied Economic Research (NCAER), Prof. S.L.Rao'*", was of the view that . the WfO framework agieement, liberalizing trade in goods and services would provide a good counter balance to developing regional trade groupings which might otherwise be inward looking and would create trade distorting consequences lu ihc orderly growth of global trade.

In the same way, A.K.Bhattachaiya"^ said that, it can bring in its wake. more competitiveness, more employment and more faster industrial growth. It was also being claimed that, WTO was not going to impinge upon our sovereigiii). economic and otherwise.

The media had also given great attention to the 8" round of GA'I 1 negotiations, which led to the creation of WTO. We have tried to follow opinions expressed through the national media on WTO. As per the "Economic Times"', ihc agreement was a major step towards a free trade regime and the setting up of WTO should ensure greater discipline in following the rules. The lound has also encouraged those outside GATT to seek entry, and this would enlarge the multilateral system. The role of the WTO will also depend on how effeelixeh it can intervene in disputes, involving the more powerful economies. Despite the opposition's rhetoric about opting out of GAT'f. it should be evident that this countiy's interest are best served by multilateralism rather than negotiating bilateral agreements with much more powerful countries. For India, to e.xeri an\ influence, it will need to build alliances with the members of the WTO^".

Now we will putforward the views, which were against the WTO and explore the weaknesses of WTO.

In India, the whole "Opposition" right, left, and center all wcic emphatically opposed to it. They were against the acceptance of WIO and claimed that this dispensation would be disastrous to Indian interests. Politicians like Atal Behari Vajpai. L.K.Advani, Somnath Chatterjee had condemned WIO and they insisted that WTO was defmitely against India's interests. Among those intellectuals who were against WTO held steadfastly that this dispensation would harm our industries, big and small and medium, since we cannot face competition from mighty multinationals with their formidable resources, technology and know-how[147].

Among People who were more convinced of the negative aspects of WT(3. S.P. Shukla"***, Stated that, "the new system will provide a built in. coercive mechanism of cross retaliation through which the major powers will be able to intrude into and occupy such economic space in the third world".

Harish Chandra"*^ in the "Indian Express", said that the most dangerous outcome ol'the Uruguay Package will be the dispute settlement mechanism. Cross-sector "Conditionality" could be really torture some and most unfair. In the same way, Muchkund Dubey, had opinion on all major issues and he was in disagreement almost entirely on all issues. He did not see any advantage lor India from any of the measures envisaged, TRlPs, TRlMs, GATS, and measures with regard to agriculture"^ .

Raman Nanda"^', was of the view that, in multilateral negotiations, no country could have its way if it is in a minoril). And this seems to have been ihc case for India. Whatever unity was displaced by the developing countries in mid ' 80s in resisting the developed countries, attempts to push intellectual |)ropcri> rights, trade in services and trade related investment measures, vanislied subsequently in the face of BOP problems thai man>' de\cloping countries lound themselves in.

Similarly, in a report made by a people's commission, consisted of .liisiiccs. V.R. Krishna. Iyer, D.A. Desai. 0. Chinappa Reddy (Ibrmer Judges of the supreme court) and Justice Rajinder Sachar (formerly of Delhi High Court), these judges said that the acceptance of the Draft Final Text (DFf) of the treaty would not only impair India's capacity to exercise its sovereign power, but would also restrict the power of the state to intervene for the benefit of the Indian people.

Ilowever gradually an unanimity began emerging in favour ol~ India's association with WTO. And with an ever larger number of developing countries opting for economic reforms and globalisation of their economies, it was considered non-prudent and reckless course of isolation in a more integrated and fiercely competitive world. Since GATT-1994 is not going to permit any restrictions on trade, neitiier tariff nor non-tariff barriers, exports and imports, both would be encouraged. Free international trade is good by many considerations, but the good of it would be shared by all the signatories of the WTO. according lo their contribution to the international trade. As the ill luck has it to date. Indias share has hardly exceeded a paltry .5 and in contrast, there are man\ smaller countries which have much greater share in world trade. The transmission from GATT to WTO is a crucial economic development. Not to take full advantage, this could be only slightly less damaging than walking out of the new world system altogether. Much depends on how far the powerful trading nations would allow this development. We would get advantage only from our efficiency, our production and excellence. There are no short cuts to development and to a gainful international trade. But one thing is certain. The excitement over the new multilateral trade framework has not yet ended. Infact. it has Jusl begun.

Now all the parties Left. Right, Center have consensus and unanimity on WTO. They are agree with the India's adherence to WTO.

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Chapters

i

3.1 INTRODUCTION

The character of world trade has undergone significant structural changes. The world trade and economy are now dominated and influenced by World Trade Organization (WTO), World Bank and IMF.

The principle purpose of GATT was to ensure competition in commodity trade through the removal or reduction of trade barriers. After Uruguay Round of trade negotiations, WTO was equipped with the authority of enforcing the commitments, rules and norms of discipline. Before the coming of the WTO, till 1994, international trade in merchandise was guided by the rules and provisions of the GATT. The GATT, rules however, did not work effectively. It failed in absorbing the complexities of world trade which had been growing steadily since the Bretton Woods days both in terms of commodity coverage and the nature of regulators. The emergence of WTO seeks opening up of domestic markets to foreign products. Removal of quantitative restrictions, reduction of tariffs, removal of subsides, changes in the patent regimes, shifts in the investment regimes, new rules of dumping and anti-dumping measures, provision of safeguard measures, etc., have all implied radical shifts in the development paradigms of the developing countries. The broad objective of WTO is to bring about a rule-based liberalised world trading system.^

India is a small player in international trade, but the economy of the country is globalising fast. The ratio of international trade to GDP of the countiy increased from 15.6 percent in 1990-91 to 20.8 percent in 1999-2000. Over the last 50 years, India's foreign trade had undergone a complete change in terms of composition and direction. The exports cover a wide range of traditional and non-traditional items, while imports mainly consist of capital goods, petroleum products, raw materials and chemicals to meet the ever increasing needs of a developing and diversifying economy. Prior to mid 1991, foreign trade of India suffered from strict bureaucratic and discretionaiy controls. Beginning mid 1991, the government of India has introduced a series of reforms to liberalise and globalise the Indian economy. These reforms in the external sector of the economy are intended to integrate the Indian economy with the world economy. During the 1990s India has become increasingly open to external trade. Trade liberalization measures undertaken by India under the aegis of WTO are expected to have significant impact on its international trade. However, country faces several difficulties such as strict Sanitaiy & phyto-Sanitaiy (SPS) conditions, continued subsides under green and blue Box policies problems related to environmental and labour standards, and other such protectionary policies adopted by the developed countries. These are affecting our exports. Current account deficit in trade is also rising year after year. The import intensity of exports has increased , but this has not led to improvement in export performance.'"

There is a need for domestic structural reforms to be deepened and completed. The government already estimates that annual export growth of almost 12 percent is required in order to raise India's share of world trade from its present level to a target of 1 percent by 2007.

This chapter is an attempt to analyze the performance of India's merchandise trade in the era of economic reform, under the aegis of WTO. The following section of this chapter shows the performance of global merchandise trade. Section III, will be an analysis of India's over all merchandise trade in pre and post WTO period. India's trade performance, its trade composition and direction has been examined. Performance of some important sectors of India's merchandise trade is discussed in section IV. Facts relating to agricultural trade before and after WTO, performance and issues related to manufacturing sector and India's textile industiy is presented in this section.

3.2 GLOBAL MERCHANDISE TRADE

The world trade has increased manifolds since world war II and the merchandise exports have increased to about $6000 billion today from just $50 billion in 1950." But after 1973, darkness descended on the world economy. The volume of world trade declined by about 3% in the first half of 1980. With the progress of economic recoveiy in the industrial countries, tiie volume of world trade began to expand quite strongly in 1983, and the prolonged deterioration in the terms of trade of non-oil developing countries came to an end. The volume of world merchandise trade increased by more than 9% in 1988, which was the fastest growth in the decade of 80s. Despite the encouraging growth in world trade, the world's trading system had become markedly less liberal. Developed countries had taken specific safeguard actions. This led to increased discrimination against the developing countries. In the Uruguay Round, the developing countries, for the first time played a significant role in multilateral trading negotiations. Thirteen developing countries and Industrial countries had formed the "Cairn Group" to promote their common interests as agricultural producers. The Uruguay Round was supposed to contribute to the strengthening of the international trading system. In the area of commodities the need was for a viable and more efficient commodity policy, essentially through stronger international co-operation, including international consultation and arrangements, and which would promote a better and transparent functioning of commodity markets and a greater contribution by the commodity sector to the development process. Many developing countries were demanding the application of GATT rules of non-discrimination and open markets than special and differential treatment in sectors where they were competitive, such as textiles, agriculture, tropical products and footwear.

The decade 1990s has been a period of globalisation, particularly with the third world countries like India. Throughout the 1990s, world trade grew faster than world output. With the establishment of WTO on Januaiy 1, 1995, and its ongoing attempts to promote free trade, exports and imports have become most dynamic. The share of agriculture in world merchandise trade fell and that of manufactured rose. Manufactures became the major part of tradable goods. The Table C-1, given below gives a description of composition of exports of world merchandise trade.

The table, reveal that the world total merchandise exports grew from a total of $2848.5 billion in 1990 to $6118.5 billion in 2000. The share of developed countries stood at $3826.6 billion in 2000. For the developing countries it was $2019.9 billion. The share of primary commodities stood at $1193.9 billion in 2000. In 2000, primary commodities accounted for 44.9 percent of the total merchandise exports in developed countries. For the developing countries, the respective share was 47.6 percent. Among the developing countries. Western Asia registered the higher share of 16.1 percent in 2000. The product categories in world merchandise trade with the highest growth rates were fuels. As far as the manufactured export is concerned, developed economies accounted for 66.5 percent of total in 2000. The share of developing countries stood at 29.8 percent. Among the manufactured goods, machineiy and transport items contributed the largest share in 2000. Thus, it is clear from the above analysis that the share of manufactured exports have increased manifold in the world merchandise trade. Exports of manufactures increased much faster than exports of agricultural or mining products.

As far as the composition of imports is concerned, it is shown from the Table C-2, that import of primary commodities have declined from 25.9 percent in 1990 to 22.7 percent in the developing countries. Import of primaiy commodity accounted for 72.7 percent in 2000 in the developed economies. In 2000 manufacturing import contributed 69.6 percent of total in developed countries, while for the developing world it was stood at 26.6 percent.

Among the manufactured imports, largest share were contributed by machinery and transport items in the developing countries, followed by chemicals and metals products.

The year 2000 was outstanding for global output and trade growth. The expansion of merchandise output and trade by 4.5% and 12% respectively was the strongest in more than a decade. Manufacturing production rose 6% in 2000, but the increase in agricultural production was limited to 1%. Mining output was up

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3.5% boosted by a 4.5% increase in oil and gas output. All regions with a large share of fuels in their export basket, the Middle ast, Africa and the transition economies reported export expansions in excess of one quarters, or more than twice the global average export growth. The estimated 15 percent increase in the volume of merchandise exports from developing countries was three times faster than their GDP growth. In 2001, however, the trade stimulus was lost as world trade slowed. The deceleration was aggravated by the disruptions caused by the terrorist attacks of September 11. After growth of over 12 percent in 2000, the volume of world merchandise exports declined by about 1 percent in 2001, the first fall in almost two decades.^ According to WTO, after a sharp downturn in 2001, the growth of world merchandise trade rebounded to 3.0 percent in 2002 and grew somewhat faster at 4.5 percent in 2003. The trade recoveiy in 2002 and 2003 benefited from strong import demand in developing Asia, the transition economies and the US, with the sluggish economies of Western urope and Latin America posting weak import growth. The most dynamic trading regions in 2003 were Asia and the transition economies, recording exports and imports expansion in real terms between 10 percent and 12 percent. United States' import growth at 5.7 percent exceeded global trade expansion, thus contributed significantly to world trade growth.'°

3.3 MERCHANDISE TRADE IN INDIA

3.3.1 India's Trade Perforniance with the World-Trends.

Until mid 1980s India intentionally continued to persue the attainment of the goal of self-reliance by adopting protective and inward looking policies based on import substitution, high trade tariffs, etc. The decade of 1990s has been a period of globalization. The basic objective of the open up of the process of the Indian economy was to integrate with the world economy so as to enhance our export earnings by having liberal access to international flows of goods. The Uruguay Round of GATT negotiations gave a new fillip to India's opening up as India became a signatory to these proposals in 1994 and also became a member of

WTO." WTO's membership is likely to open new and expanded trade. But set backs are also anticipated. It was estimated that the level of merchandise trade would increase by 745 billion US dollars in the year 2005. Largest increase will be in the areas of clothing (60%), followed by 20 percent for agriculture, forestiy and fisheiy products and 19 percent for processed food and beverages. As our country enjoys potential export competitiveness in these products lines, it was believed that India would achieve large gains from these sectors. It was also assured that our textiles and clothing industry would be benefited by the phasing out of MFA (Multi-Fibre Agreement) by 2005. Reduction in domestic subsidies and trade barriers will raise the world prices of agricultural products.'^ To face this new world trade regime, India must aim at raising the competitive advantage of all the sectors of the economy.

India is the 31^' leading exporter and 24'" leading importer in world merchandise trade. Since the late eighties to early nineties the Indian economy was going through veiy hard times. Although economic reforms were introduced under Rajiv Gandhi regime (1985-90), they did not yield the desirable results. The balance of trade deficit increased continuously. Consequently a serious BOP crisis emerged. All these circumstances led to the adoption of new economic reforms in the countiy. The value of India's exports and imports has increased considerably. " Table C-3 and Figure C-i, given below gives a glimpse of India's foreign trade. In 1970-71, exports were of $2031 million, which went up to $ 18143 million in 1990-91. Imports during this period rose from $ 2162 million to $ 24075 million. Countiy has faced substantial trade deficits throughout the years. Imports remained greater than exports. However, strict import restrictions in 1991-92 led to a sharp reduction in the value of imports in dollar terms, xports also fell. But as the rate of decline in imports was more faster than exports, trade deficits declined drastically. However, this sharp cut-back in imports had a decelerating impact on industrial growth.

TABLE: C-3

India's Foreign Trade with the World

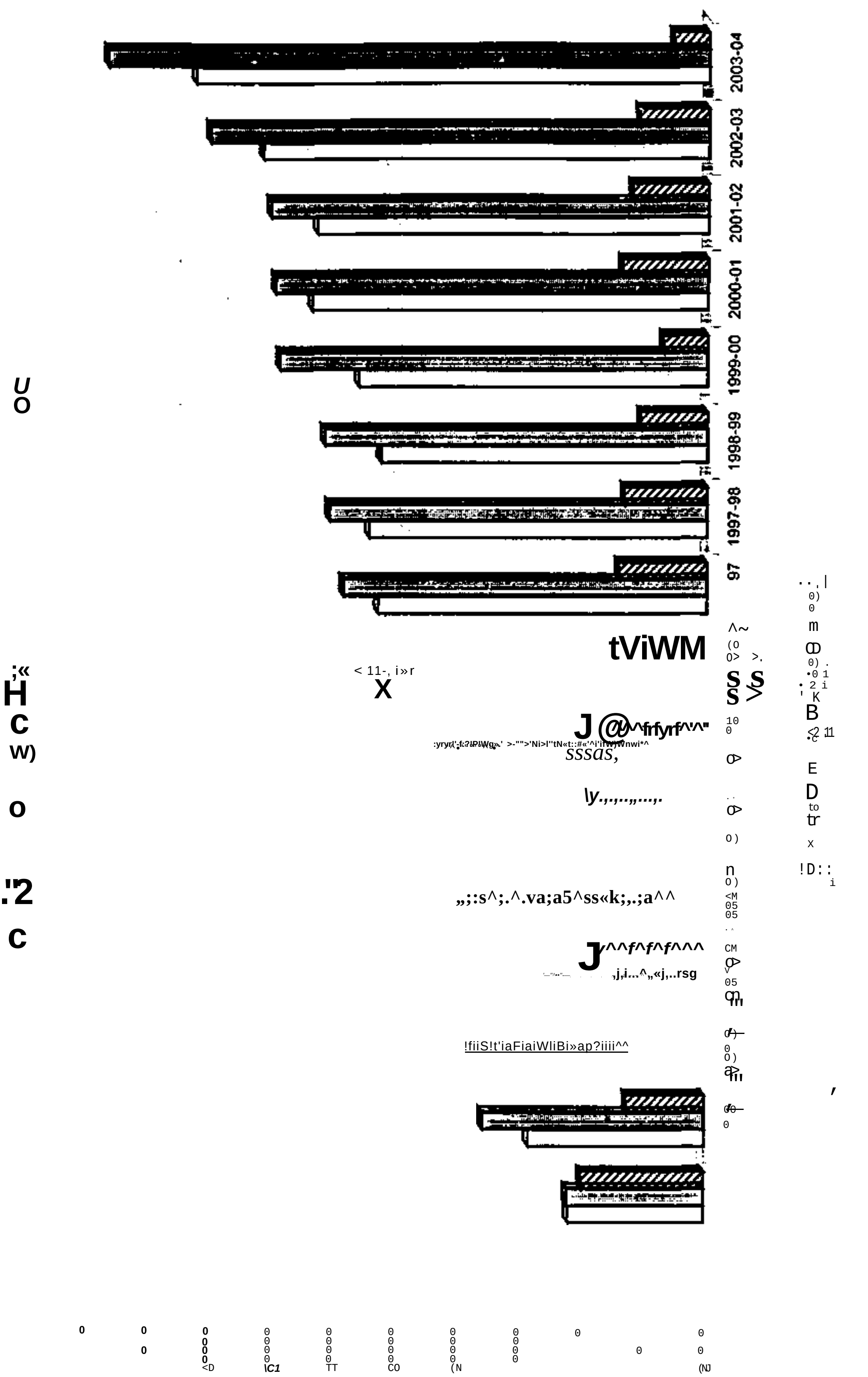
(US $ Million)

Year	Exports (including re-exports)	Imports	Trade Balance
1970-71	2031	2162	-131
1980-81	8486	15869	-7383
1990-91	18143	24075	-5932
1991-92	17865	19411	-1546
1992-93	18537	21882	-3345
1993-94	22238	23306	-1068
1994-95	26330	28654	-2324
1995-96	31797	36678	-4881
1996-97	33470	39133	-5663
1997-98	35006	41484	-6478
1998-99	33218	42389	-9171
1999-00	36822	4967!	-12849
2000-01	44560	50536	-5976
2001-02	43827	51413	-7586
2002-03	52719	61412	-8693
2003-04	63843	78149	-14306

Source : Government of India, Ministry of Finance, Economic Survey, 2004-2005.

Exports fell from $ 35,006 million in 1997-98 to $ 33,218 million in 1998-99. As against this, imports were marginally higher. Trade deficits rose shaiply to $ 9171 million in 1998-99. Non-trade bairiers imposed by the developed countries on Indian exports added to uncertainty in trade. The recessionaiy tendencies across the world market severely affected the demand side of our exports. The redesigning of foreign trade policy covered quite a broad area and a variety of measures. Since 1992-93, tariff rates were gradually cut.

The improvements in world commodity prices in 2000, and the revival of world trade following the Asian crisis led to a sharp turnaround in exports. Exports registered a growth of 10.8 percent in 1999-2000 and further 21.0 percent in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2000-01, which was the highest since 1991. Table C-4 and Figure C-ii, gives the trends of growth rates in exports and imports over the years. This growth in exports was also accompanied by a still larger 17.2 percent growth in imports. As a result, trade deficit reached the recprd level. The sluggishness in imports in 2000-01 was due to a fall in non-oir imports, which was mainly because of a decline in imports of food and allied products, fertilizers, capital goods and other intermediate goods"* Between 2000 and 2003, India's exports have increased by around 32 percent, as compared to a rise of around 17 percent in world exports. Average growth rate during these periods stood at 15.2%. Imports growth, after stagnating for two years, accelerated in 2002-03, registering a growth of 19.4 percent in US dollar value. It continued to surge in 2003-04.

TABLE : C-4

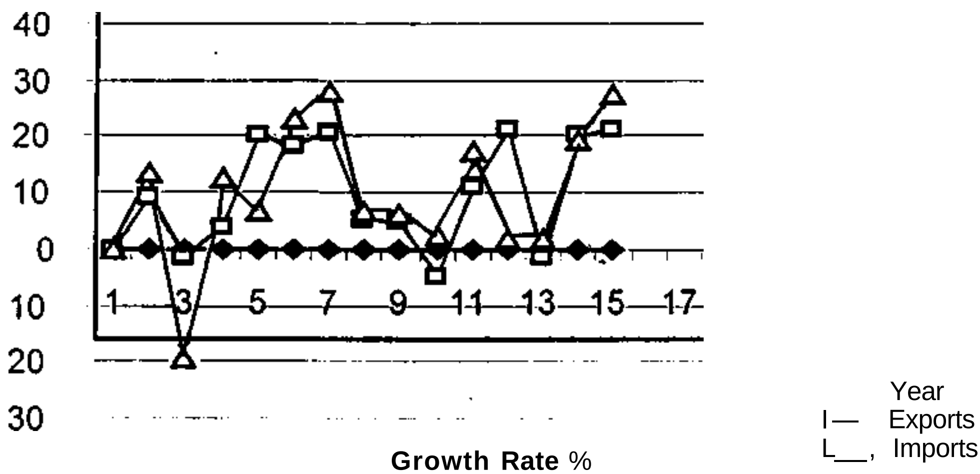
Rate of change of India's Merchandise Exports and Imports in Pre and Post WTO period.

(Percentage)

Year	Growth Rate (%)	
	Exports	**Imports**
1990-91	9.2	13.5
1991-92	**-1.5**	-19.4
1992-93	3.8	12.7
1993-94	20.0	6.5
1994-95	18.4	22.9
1995-96	20.8	28.0
1996-97	5.3	6.7
1997-98	**4.6**	6.0
1998-99	**-5.1**	2.2
1999-00	10.8	17.2
2000-01	21.0	1.7
2001-02	**-1.6**	1.7
2002-03	20.3 •	19.4
2003-04	21.1	27.3
	Average Growth Rate, %	
1990-94	9.98	7.24
1995-99	7.28	12.02
2000-03	15.2	12.53

Source: Computed from "Economic Survey", GOI, Ministry of Finance, Various Issues.

Fig: C-ii: Rate of Change of India's Mercliandise Exports & Imports in Pre & Post WTO Period



Exports have remained sluggish due to lack of exportable surplus, competition in the international markets, inflation at homes and increasing protectionist policies of developing countries. During the period 2000-2003, average import growth remained at around 13 percent.

In 2002, India emerged amongst leading exporting nations as the world's fastest growing exporter after China. Trade policy reforms of the recent past, with their focus on liberalization, openness, transparency and globalization have provided an export friendly environment with simplified procedures for trade facilitation. As a member of the WTO, the Indian government has bound about two-thirds of its tariff lines and has been making a phase reductions in these bound levels that will be completed by the year 2005. Apart from tariff cuts, quantitative restrictions have been removed from the import of many items, especially capital goods and intermediaries. The Indian government has also submitted a detailed proposal to the WTO for curbing quantitative restrictions. The Open General Licence (OGL) list has been broadened. To strengthen exports Export Processing Zones (EPZs), 100 percent Export Oriented Units (EOU), Export Houses, Trading Houses, and Star Trading Houses have got a number of incentives, hidia's external sector refonns coincided with the conclusion of Uruguay Round discussions and the establishment of the WTO.'^

For the entire post reform period i.e., 1991 to 2000, the Compound Annual Growth Rate (CAGR) of exports was 10.2 percent. India's exports as a percent of world exports which remained at around 0.5 percent (Table C-5 & Figure C-iii) in the first half of 1990s has improved in the second half of 1990s to 0.61 percent during 1998 and further to 0.65 percent during 1999. It stood at 0.7 percent in 2000-01. However, India's share in world exports is still veiy low.'^ It is really important for a country that its export should increase both in absolute and relative terms. Thus, India has not been able to exploit its export potential. Some of the major importers of Indian products have resorted to various kinds of non-tariff barriers, despite the WTO's crusade against the imposition of such barriers. The country's exports of textiles, engineering products, chemicals and pharmaceuticals and agricultural and marine products have been affected on this count. It was hoped that India would gain through new trade regime with the elimination and reduction of trade bamers. But, unfortunately, the major importers of Indian products, viz., the US, EU countries and Japan claiming for around one half of India's exports. They have made use of the safeguard clauses and some other clauses and put severe restrictions on imports from India. Safeguard clauses allow imposition of NTBs in case of injuiy to domestic industry or in some special cases. But the special cases have become a general case.'^

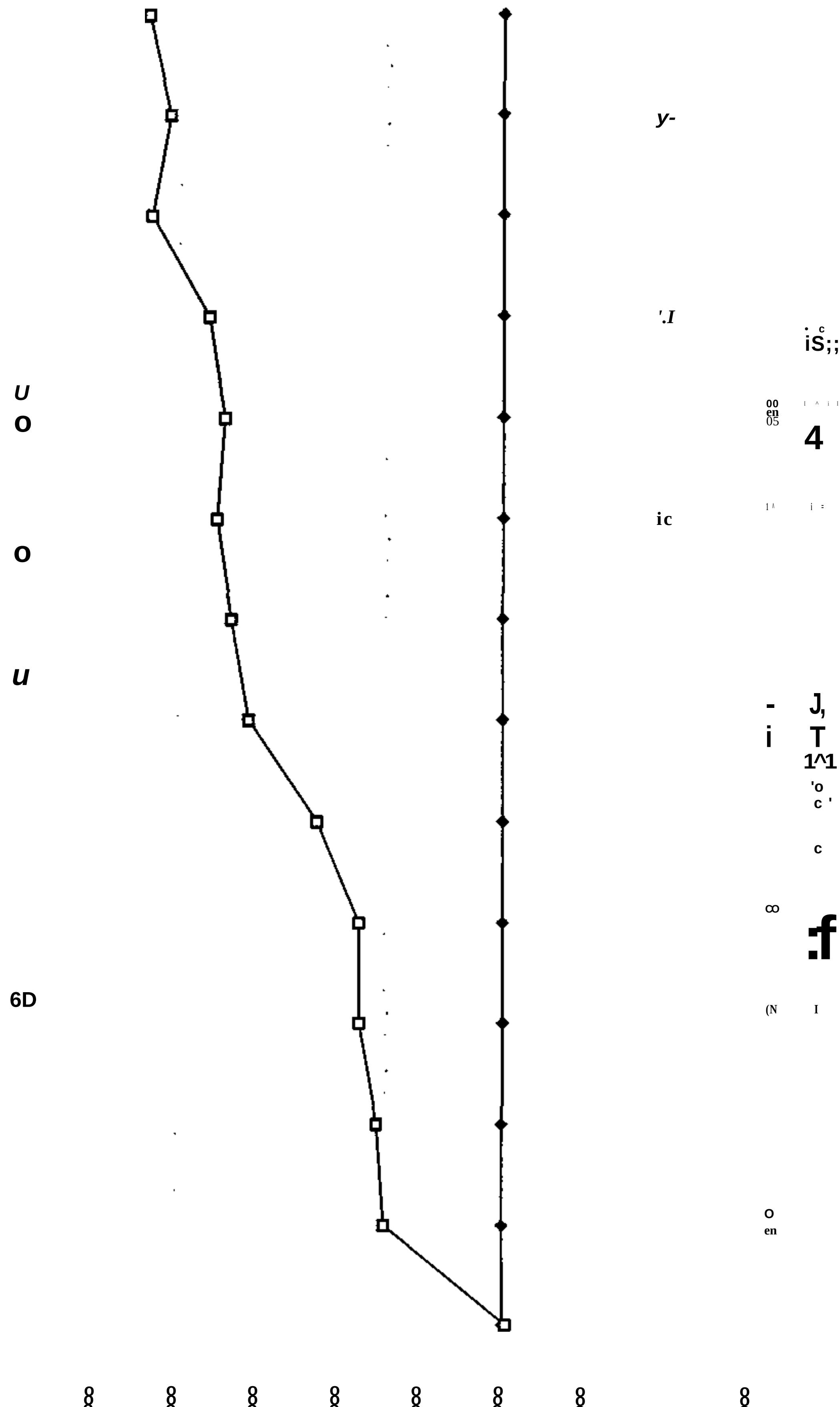
TABLE ; C-5

INDIA'S SHARE IN WORLD EXPORTS

Year	World (in billion of US $)	India (in billion of US S)	Percentage
1980	1945.9	8.586	0.45
1990	3438.6	17.969	0.53
1991	3530.3	17.727	0.51
1992	3757.7	19.628	0.53
1993	3761.6	21.572	0.58
1994	4281.8	25.022	0.59
1995	5123.2	30.630	0.60
1996	5343.6	33.105	0.62
1997	5530.0	35.008	0.64
1998	5436.0	33.437	0.62
1999	5635.8	35.667	0.64
2000	6340.5	42.379	0.7
2001	6114.8	43.611	0.71
2002	6384.5	49.327	0.8

Source: Computed from IMF, International Financial Statistics, year book, 2002-2003.

The success of reform measures also depends upon whether the terms of trade have moved in India's favour. Fortunately, it has moved in India's favour, (Table C-6 & Figure C-iv) confirm this view. The decade of 1990s brought good news on Terms of Trade (TOT) for India. Gross barter terms of trade index (Base year = 1978-79), fell to a small extent in the first year of reform, yet, they began improving till 1994-95 when the index touched 139.5. However, they fell back during the following two fiscal years. It reached 124.3 in 1996-97. Almost similar was the case with the net barter terms of trade. The index improved from 119.5 in 1991-92 to 152.4 in 1994-95, but then it dropped gradually to 1026.2 in 1996-97.



The income terms of trade improved substantially during the period of reform from 249.3 in 1991-92 to 530 in 1995-96. However, it dropped marginally to 519.7 in 1996-97. The gross barter terms of trade reached to 122.2 in 2000-01, while the net barter during the same period stood at 128.1. Income terms of trade reached to 731.6.

TABLE : C-6

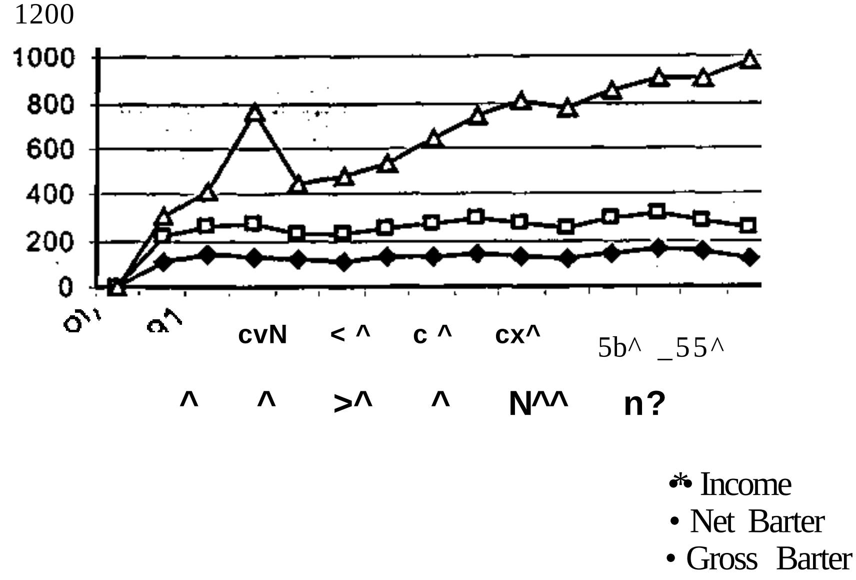
India's Terms of Trade

(Base year = 1978-79)

Year (Period Fiscal average of)	Gross barter	Net barter	Income
1971-72 to 1980-81	109.8	107.1	89.0
1981-82 to 1990-91	144.8	112.9	153.9
1991-92 to 2000-01	134.4	136.6	491.4
1990-91	122.5	109.3	212.1
1991-92	109.3	119.5	249.4
1992-93	126.5	127.3	283.8
1993-94	127.8	144.9	373.1
1994-95	139.5	152.4	446.0
1995-96	134.0	137.9	530.1
1996-97	124.3	126.2	519.8
1997-98	145.6	145.8	562.9
1998-99	161.4	150.0	598.5
1999-00	152.9	134.2	618.8
2000-01	122.2	128.1	731.6

Source: DGCIS quoted in RBI, Handbook of statistics on Indian Economy, 2001.

Fig:C-iv: India's Terms of Trade



The net terms of trade improved by an average annual rate of 2 percent per annum during 1991-92 to 2000-01. The income terms of trade grew by about 13.8 percent per annum during the same period.

All this reflects that large gains from trade accruing to India's during the post reform period. Yet, reform in foreign trade sector has failed to promote stability in export earning which is actually desired for strengthening the process of economic development. To sum up, foreign trade sector reforms have not lived upto expectations. It is true that the terms of trade have gone in India's favour, and the structure of trade diversified in favour of large number of commodities and countries. Yet, the trade deficit has been on the increase despite lowering of the growth rate of imports in recent years. There are some supply constraints that the Indian government has not been able to remove completely. But more importantly, there are external factors which are not within the control of the Indian government. These are responsible for slow growth of exports. Good results are expected if the supply constraints are removed and the world economy makes favourable growth.'^

3.3.2 India's Major Export Items and their Share:

A crucial aspect of the trade of a countiy is its composition. Exports indicate the facts about the goods that we have and how much of them we can and are willing to sell. The changing structure of trade items reflects the developments that occur in the domestic structure of production over a period of time. In the early years of planning, traditional commodities alone were important. With the success of industrialization and improved economic structure, non-traditional commodities also became important.. At present, India's exports by major commodity groups are as follow.

a. Manufactures, It includes Engineering goods, Chemicals and Allied Products, Cotton Yarn, Fabric etc., Jute Manufactures, Leather and its Manufactures, Readymade Garments, Gems and Jewelleiy.

b. Agriculture and allied products category includes Cashew Kernels, Coffee, Marine Products, Raw Cotton. Rice, Spices, Sugar, Tea and Mate, Tobacco etc.'^

c. Ores and Minerals, include Manganese ore. Mica and Iron ore.

d. Mineral Fuels and Lubricants.

India exports a wide range of commodities. From a typically colonial pattern of trade, with a high degree of concentration of trade in a few commodities, India's trade has recorded notable changes in respect of composition. Today non-traditional items have grown in importance. Presently, over three-fourths of countiy's exports consist of manufactures. Agriculture and allied products contribute a merely less than one fifth of the total export earnings whereas ores and minerals represent a very small segment together with crude and petroleum products and a few unclassified items. Agriculture's share in merchandise exports is continuously declining.

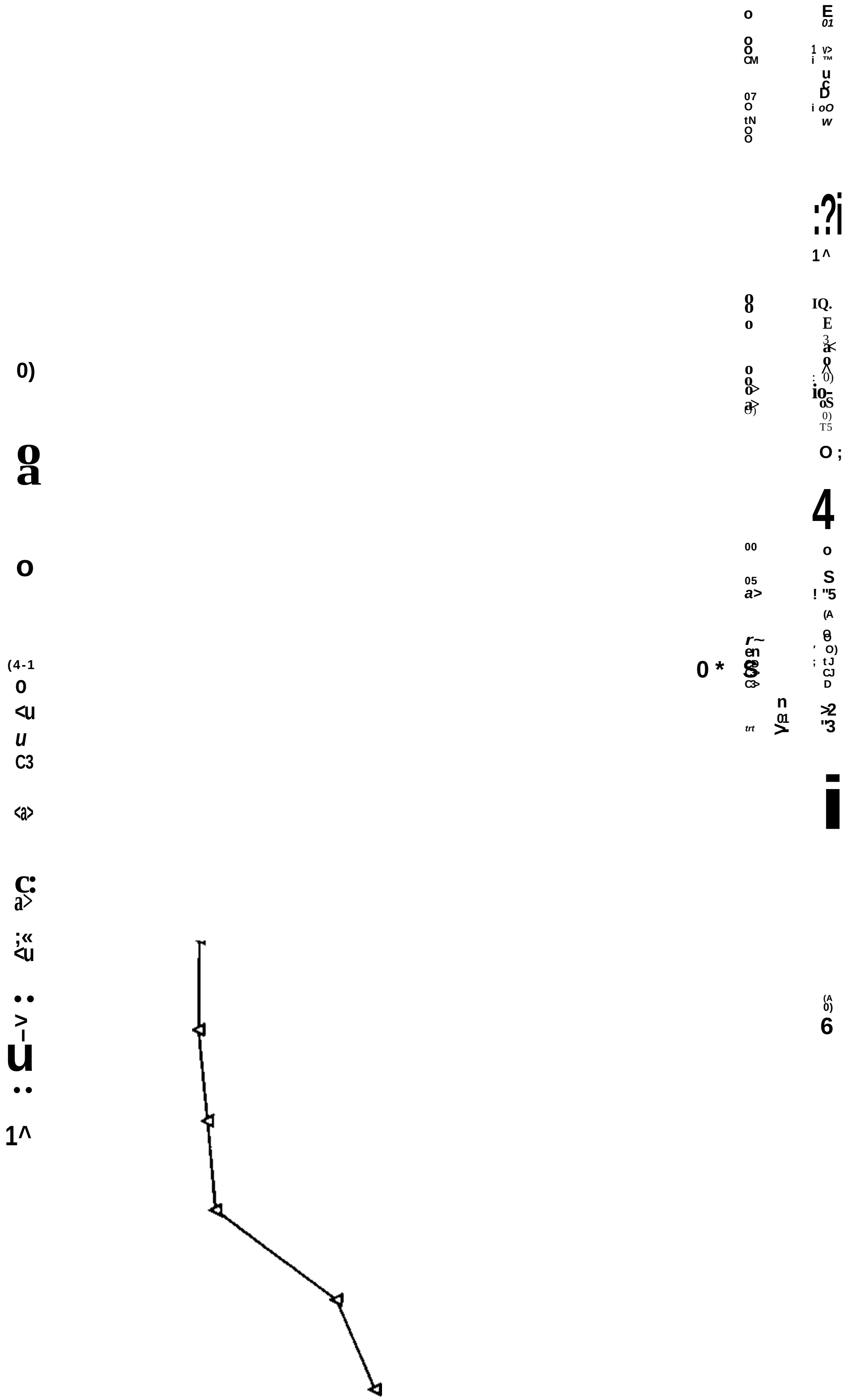
It is clear from Table C-7 that exports of agricultural and allied goods grew by 12.8 percent in 1996-97, but again it. fell down in the successive years. In 2000-01, exports of these commodities grew by 6.7 percent and further by 40.1 percent

in 2002-03. Manufactured goods have increased their share tremendously. In 2000-01, their share grew by 15.7 percent. Among the manufactured goods, about one fifth of total export earnings are provided by handicrafts, and ranked first position in India's exports. In handicrafts, largest shares are acquired by gems and jewellery. Its exports grew at the rate of 10.3 percent perannum during the 1990s. Average growth rate of manufactured growlh stood at 20.6 percent during the periods 2002-03 to 2003-04. Engineering goods is the second largest group of commodities in India's exports basket.

In 2000-01, readymade garments occupied third place behind handicrafts and engineering goods. Chemical and allied products have occupied fourth place in our exports. Fifth position in exports earnings in 2000-01 was occupied by cotton, yarn fabrics, made ups etc., with a share of 7.9 percent (Table C-8 & Figure C-v). The share of gems and jewelleiy stood at 16.6 percent in 2000-01. Manufactured goods as a whole accounted for 78 percent in 2000-01, while the share of agriculture and allied products declined to 14 percent in 2000-01. There was an increase in the share of petroleum products from about 1 percent in 1970-71 to 4.2 percent in 2000-01. Exports of ores and minerals grew at a slow pace of 2.6 percent per annum.

In 2002-03, major traditional exports like textiles (including garments), gems and jewelleiy, engineering goods (especially iron and steel, non-ferrous metals, transport equipment and project goods), chemical and related products contributed to the bulk of increase in manufactured goods. Agriculture and allied commodities recorded a sharp turnaround, contributed mainly by enhanced exports of cereals (mainly non-basmati rice) marine products, spices, tobacco, cashewnuts, processed foods, meat and meat preparations and floriculture products. Currently, the top 20 products that we are exporting account for more than 70 percent of our exports. Rising domestic refining capacity enabled continued robust growth in

exports of petroleum products. Export performance in April-October 2004 displays all round acceleration in growth across all major commodity groups.



Export promotion continues to be a major thrust of India's trade policy, the objective is to make exports the engine of growth. In addition to tariff exemptions and duty drawbacks, it encompasses schemes such as export- processing zones and special economic zones. Indian products receive preferential treatment under the Generalized System of Preferences (GSP) schemes of some countries. Exports from India are currently subject to 40 anti-dumping and 13 countervailing measures, as notified by the WTO. New tariff barriers faced by Indian products in various overseas markets are severely constraining our exports. Quantitative restrictions especially in the textiles areas are one of the most important of the Non-tariff Barriers (NTBS). In the agricultural product sector there are barriers to exports of mangoes and other fruits on account of insistence of some of our major trading partners to use only the Vapour Heat Treatment (VHT) procedure. In the floriculture sector, there are certain plant quarantine procedures in some importing countries including zero tolerance for some insects and pests, which affect our market access. In the leather products sector, Indian exporters face non-tariff measures like chemical and dye content of leather, other standards, packaging and labeling requirements, etc. In the European Union, anti-dumping duty is imposed on Indian steel and textiles. In recent years, some major importers of Indian goods have implemented the social clause as well as environmental clause. They have restricted the import of Indian carpets because it involves child labour. Similarly, the import of tuna, prawns and shrimps has been restricted by the U.S. government on account of the environmental clause. There is of course, the provision for the settlement of disputes if any NTBs is unwarranted. Although the dispute was settled in India's favour in the case of shrimp exports, the process of dispute settlement system is time consuming.^^ There is import ban/ quota facing on India's basmati rice, although it has found a way into the Japanese market at least to some extent. The demand constraints do exist despite the best endeavor of the WTO to do away with them.

Thus, the Indian economy is being diversified and both traditional and non-traditional items of exports are growing in importance. India is now in a position to take advantage of both favourable demand situation and attractive prices situation in international markets. Some commodities have tremendous export potentials, e.g. handicrafts, engineering goods and readymade garments. Rice export is also gaining importance. Besides, fruits and vegetables and processed foods are also becoming significant in our exports. Efforts to expand and diversify products must continue. Increasing contribution of non-traditional items has been praised worthy but not consistent enough. Indian exporter will have to resolve to work hard, meet agreed schedules and deliver quality products.

3.3.3 INDIA'S MAJOR tMPORT ITEMS AND THEIR SHARE,

Unlike exports, where the broad commodity composition was quite stable in the 1990s, in case of imports, composition has undergone some change. The change recorded in the composition of imports bears an imprint of the strategy of industrialization. Presently, the major items of the Indian import basket are petroleum, crude and products, pearls, precious and semi-precious stones, machinery, organic and inorganic chemicals, electronic goods, gold and silver.

In India, imports have galloped because of increasing requirements of capital goods, defense equipment, petroleum products and raw materials. During the 1990s, over all imports grew at the rate of 10.1 percent per annum.^"^ Table C-9 shows that the total imports grew by 27.3 percent in 2000-04. The most important change is that the imports of food and live animals have declined sharply. The insufficiency of oil production in India necessitated large imports of oil, mostly petroleum and petroleum products. During 2003-04 they grew by 16.6 percent. Chemicals have also emerged as other main import item, with increased expansion and diversification of Indian industiy. In 2003-04, they grew by 34.9 percent. With the liberalization of the imports of gold and silver, their imports have risen considerably. Due to increasing demand of gems and jewellery industiy, the imports of pearls, precious and semi-precious stones have increased significantly.

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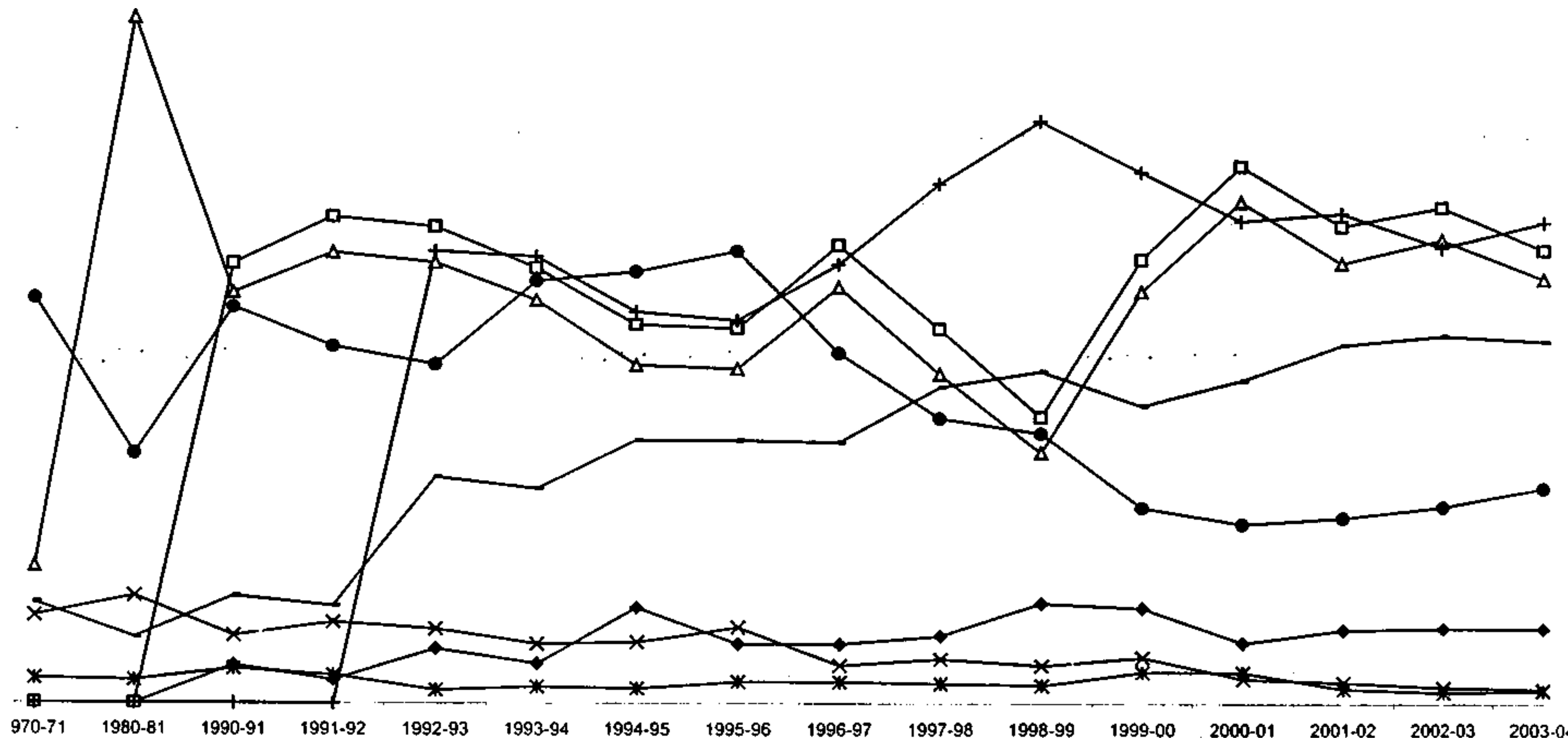
Among the capital goods, import expenditure on non-electrical machineiy, apparatus, and appliances rose considerably. In the 2'" half of 1990s import of export related items recorded a higher growth. In the year 2001-02, on account of slump in crude oil price, since September 2001, oil imports have contracted and the rise in imports during April to December 2001 was accounted for by increased non-oil imports. Total imports growth rates were averaged at 23.4 percent during the period 2002-03 to 2003-04.

The shares of food and live animals have declined from 13.0 percent in 1970-71 to almost zero percent in 2000-01 (Table C-10 & Figure C-vi). The share of POL stood at 31 percent in 2000-01. Gold and Silver accounted for 9.3 percent in total imports in the same year. In 2000-01, imports of fertilizers accounted for 1.5 percent. In 2002-03, around 85 percent of the increase in imports in absolute terms was accounted for by higher imports of POL, electronic goods, pearl, precious and semi precious stones, capital goods and edible oils.'^^

As far as policy of imports is concerned, the government has progressively liberalized imports by removing quantitative restrictions maintained under the BOP cover. Action has been completed on removal of restrictions on tariff lines (2,714 items), notified to WTO under the BOP cover. There have been no major changes in customs procedures. India does not require pre-shipment inspection for imports. It maintains tariff quotas on imports of milk powder, maize, crude, sunflower seed, etc. India does not apply rules of origin for imports from Most Favoured Nation (MFN) sources. India notified the WTO of its removal of restrictions on 714 and 715 import items in December 2000 and February 2002, respectively. Import restrictions are maintained for imports of second hand motor vehicles, which must not be older than 3 years from the date of manufacture. It has become a major user of antidumping .250 antidumping actions were initiated since 1975. Safeguard measures may be taken by the Central Government Under Section 8B of the Custom Tariff Act, 1975 as amended in 1997.^^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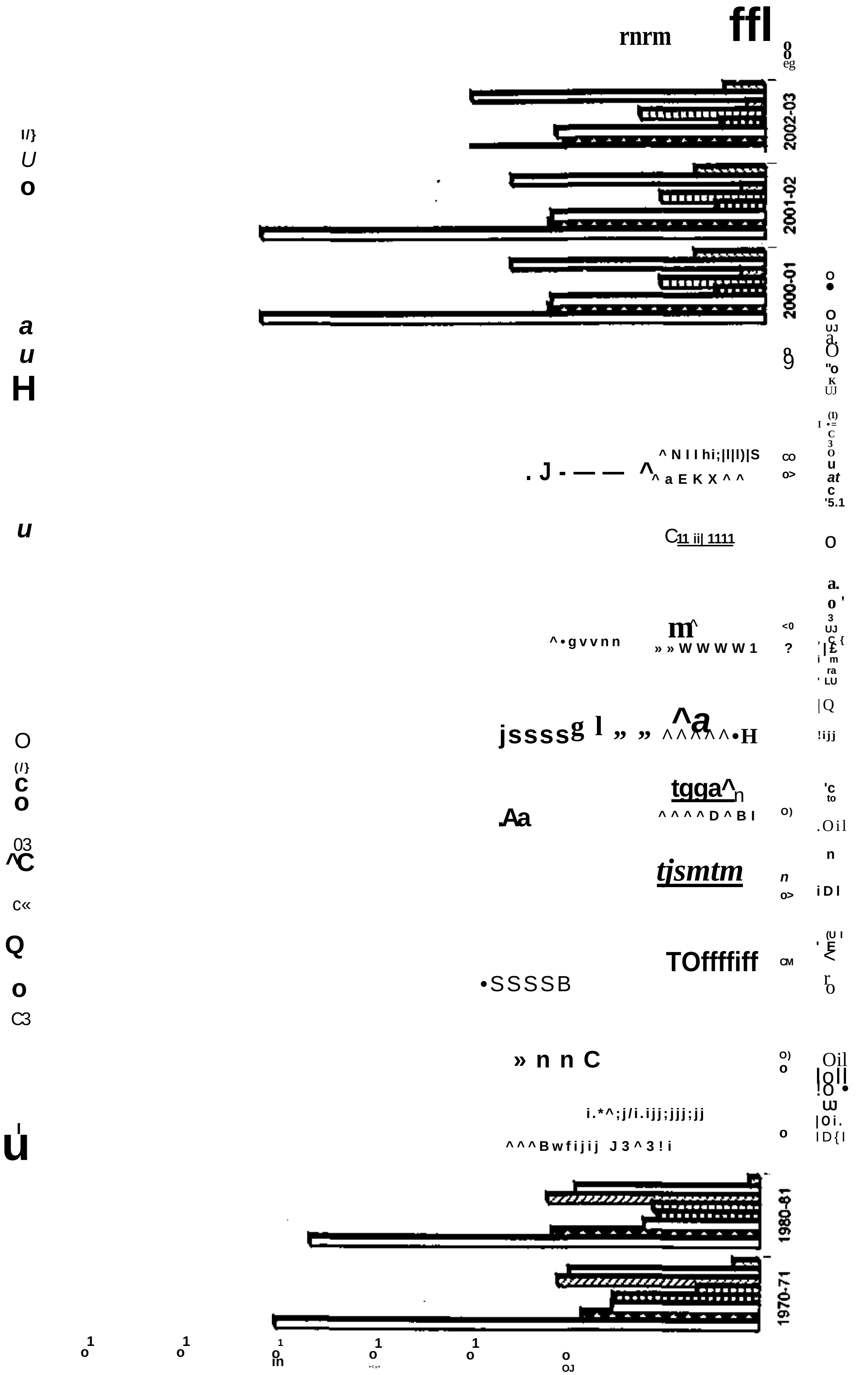
Major Destinations of India's Merchandise Trade:

India's trade relation with different countries of the world changed in the post independence era. After five decades of planning, the trading relations reveal marked changes. The diversification in trade relations has reduced the vulnerability of the economy to outside political pressure.

India's trading partners have been divided into the major groups. These are OECD, OPEC, Eastern Europe, Developing Nations and Others.

As far as direction of exports is concerned, it is clear from the (Table C-11 & Figure C-vii), that, OECD group accounts for a major portion of India's exports. The share of this group stood at 52.7 percent in 2000-01. Almost 43 percent of these exports were by the EU countries in 2000-01. Major partners have been U.K., Germany, Belgium, Netherlands and France. Nearly 70 percent of India's exports to EU comprise of commodities such as, leathers, tea, diamonds, cotton fabrics, tobacco, precious and semi-precious stones and coffee.^^ The contribution of OPEC group reached to 10.9 percent in 2000-01, where as the share of Eastern Europe stood at 2.4 percent in 2000-01. Developing nations of Africa, Asia and Latin America accounted for almost more than one-fourth of India's export earnings in 2000-01. Asia gained the position of most important countiy. Its share stood at 21.4 percent in 2000-01.

USA, UK and Japan were the largest markets for Indian exports during the 1990s (in terms of total exports during the entire decade). Exports to OECD, OPEC and other developing country regions increased in 2002-03 by 22.0 percent, 31.9 percent and 32.0 percent, respectively. This resulted in rise of their share in total exports to 50.0 percent, 13.1 percent and 30.8 percent. USA still continues to have a key influence on India's exports. It takes up more than one-fifth of Indian exports and is the largest market for Indian exporters of readymade garments, gems and jewellery, electronic goods, and drugs and pharmaceuticals.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In 2003-04, over taking countries like the UK and Belgium, China has emerged as India's highest trading partner after the U.S.A. and U.A.E. United Arab Emirates (U.A.E.) is now the second largest trade partner of India after U.S.A. China has also emerged as India's another biggest trading partner after the U.S.A. and U.A.E.

As far as sources of imports are concerned, the importance of OECD as a group has declined considerably over the period. The share of this group in India's import was 63.8 percent in 1970-71, which fell to 39.9 percent in 2000-01 (Table C-12 & Figure C-viii). The share of OPEC increased considerably over time. From 7.7 percent in 1970-71, the share of this group increased to 22.5 percent in 1999-2000. However, it further fell to a mere 5.4 percent in 2000-01. The share of other countries rose significantly to 36.2 percent. Eastern Europe's contribution declined to 1.3 percent in 2000-01. Developing nations, particularly of Asia have increased their share considerably in India's imports. They accounted for 17.5 percent of India's import expenditure in 2000-01.^^

The share of traditional importers of India, namely, US, EU and Japan has fallen drastically over the 1990s. The US may be India's largest trade partner, but its share in our imports is now only 6. percent, down from 9.6 percent ten years ago. The sourcing of imports in 2002-03 showed lower shares from regions like OECD, OPEC and other Eastern Europe, with gains in the share of other developing countries, mainly from Asia. In 2003-04, the share of OPEC and Eastern Europe increased to 8.3 percent and 1.7 percent respectively.

To, sum up, the number of countries buying from India has increased considerably. There is a sea-change in the direction of exports. The sources of imports to our countries also experienced changes. The enlargement of EU from May 1 2004, is likely to facilitate greater market access. Geographical diversification of trade is expanding and the scope of direction of trade is widening.

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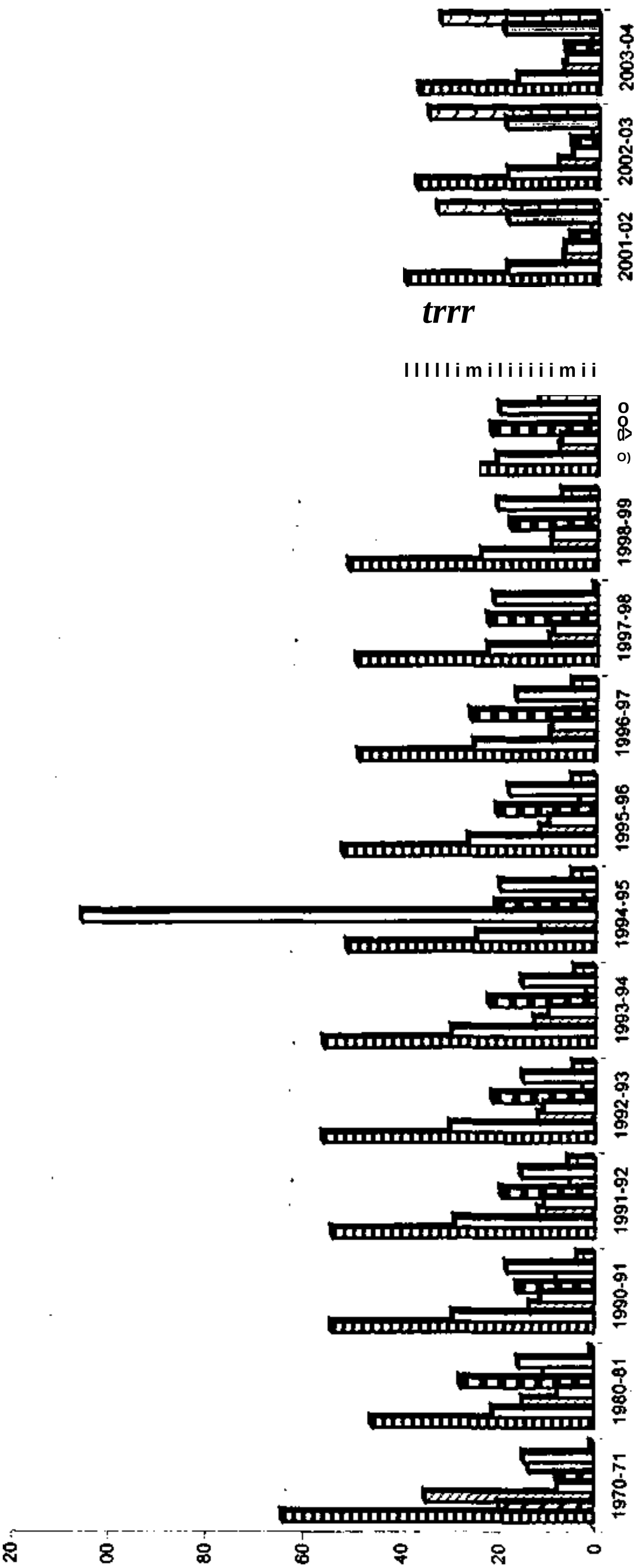
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3.4 WTO and Indians Merchandise Trade : Some Important Sectors;

3.4.1. WTO and India's Agricultural Trade

Agriculture remains to be the largest sector of Indian economy, even though its contribution to GDP has declined from over 50 percent during early 1950s to about 22 percent recently. It has also played its significant role for earning foreign exchange, through export of traditional items like Tobacco, Tea, Coffee, Cashewnuts, Spices, Raw Cotton, Basmati rice, etc. This sector still makes second largest contribution to GDP.

The decade of 1990s witnessed two very significant developments that led to remarkable impact on agricultural trade. There was the liberalization of economic policy as part of the economic reforms programme and it was initiated at a time when new multilateral trade agreement known as "Uruguay Round" of GATT was being finalised with the formation of WTO. Globalization of agriculture trade, following WTO, was viewed as a great opportunity for promoting agricultural exports.^^

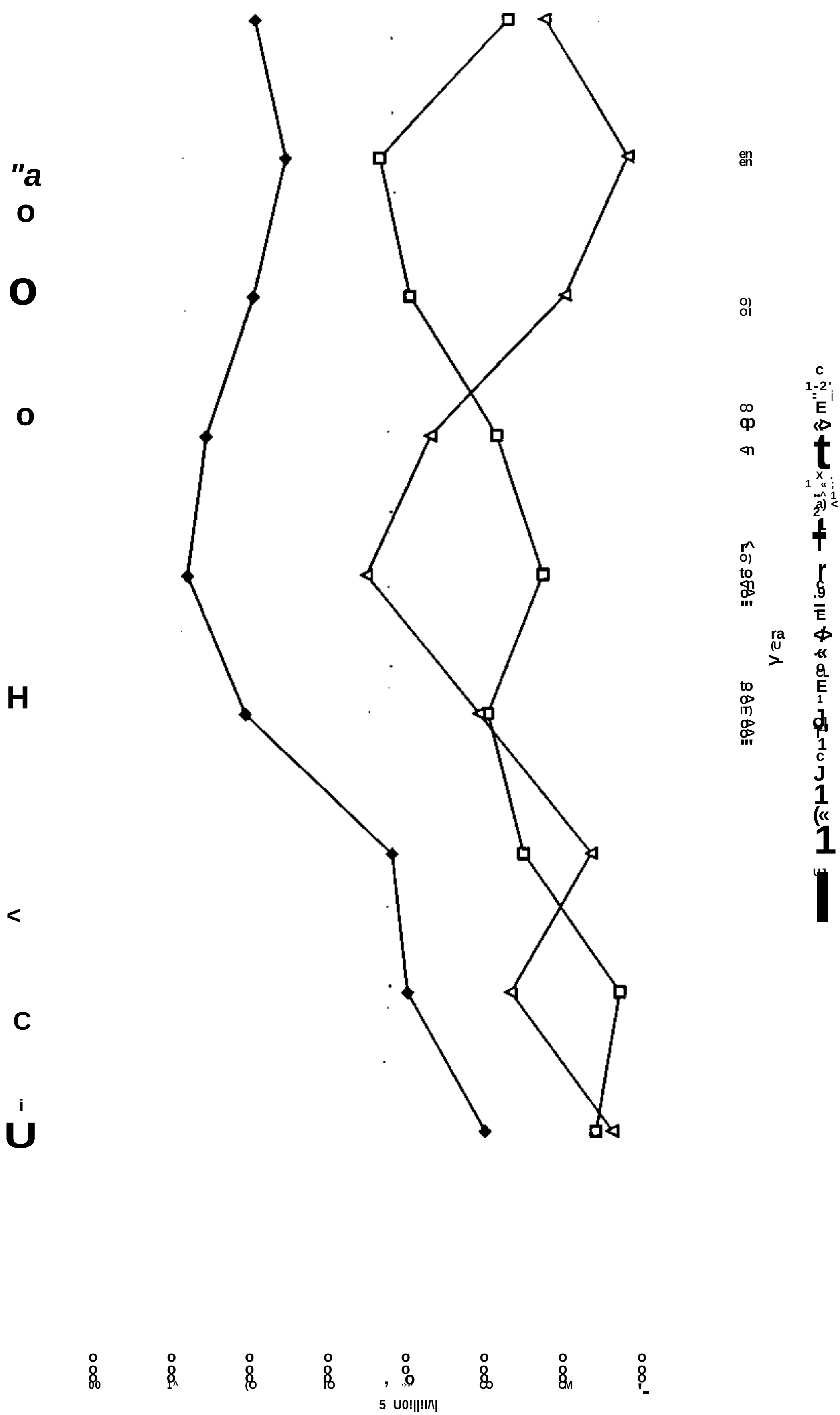
The Agreement of Agriculture (AoA) of WTO aimed to reduce distortions in world agricultural trade. It specifically deals with providing market access, regulating domestic support and containing of export subsides. Some other provisions were also made within the WTO to prevent the distortions in agricultural sector. All these led to the expectation of having a great impact on agricultural goods as the world trade in agriculture was restricted and distorted in the 80s. In India, the domestic support to agriculture is largely, in the form of lower farm inputs price. AMS is a means of quantifying aggregate value of domest support or subsidy given to each categoiy of agricultural products. India does not provide any direct subsidy to agricultural exports, though various export incentive schemes are in operation to facilitate exporters. India is required to notify the WTO on its direct export subsidies once in two years. Being under a BOP cover, India had not been maintaining quantitative restrictions and had not taken any commitments with regard to market access and this has been clearly stated in our schedule filed in WTO. We are free to follow our own agricultural policy and various domestic support programmes for our farmers.

Despite being an agrarian economy, India has remained a marginal player in world agricultural trade. Presently, it has a share of less than 2 percent of the world market in agriculture. The post Uruguay Round experience has shown a mixed .result for agricultural trade. While it has registered increase in some product exports, a declining trend has also been found for others. Table C-13 & Figure C-ix, shows India's agricultural trade in post reform and pre & post WTO period. India's agricultural exports stood at around $3.2 billion during 1990-91 to 1992-93. The pace of growth continued till 1996-97. While imports of agricultural production reflect a mixed trend during the same period. However, this growth trend was only for a short duration. Agricultural exports started to decline after 1996-97. It stood at $5.5 billion in 1999-2000. Imports witnessed 80 percent increase in $value after 1996-97. This led to the reduction in net foreign exchange earning. It was $1.21 billion during 1999-2000. However, there is some improvement in trade performance during 2000-01.'" The share of agriculture and allied products in total exports was 14 percent in 2000-01.

TABLE: C-13
India's Agricultural Trade in,
Pre& Post W.T.O. Period

Year	Exports $ million	Imports $ million	Net exports $ million	Trade as % of GDP		Agriculture Total
				export	import	
1992-93	3028	1618	1410	5.22	2.79	8.00
1993-94	4023	1317	2706	5.69	1.86	7.55
1994-95	4227	2544	1683	5.20	3.13	8.33
1995-96	6120	3001	3119	7.37	3.61	10.98
1996-97	6868	2303	4565	7.30	2.45	9.75
1997-98	6634	2893	3741	6.99	3.05	10.04
1998-99	6033	4012	2021	5.92	3.94	9.86
1999-00	5615	4402	1213	5.30	4.00	9.30
2000-01	6013	2738	2275	-	-	-

Source: Government of India, Ministry of Finance, "Economic Survey", Various issues.



As far as export of commodities is concerned, liberalization of export of non-basmati rice in mid 1990s provided impetus to its exports. The worst affected exports are of oil meal. Commodities such as cotton, sugar, groundnut, tobacco and meat also experienced declining trend till 1999-2000. Traditional export items like tea, cashew and spices maintained their status in post WTO trade liberalization. Table C-14, reveals the export conditions of some major agricultural commodities before and after the existence of WTO. India no more depends upon rice imports. Imports of cereal preparations reduced to a veiy low level. India is now the biggest edible oil importer in the world leaving behind China.

TABLE: C-14

India's Exports of Selected Agricultural Commodities before and after WTO

(USSmillion)

Item	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Agri. & allied products	3028	4023	4227	6120	6868	6634	6033	5504	6013
Basmati rice	276	338	276	255	352	454	446	411	470
Non-basmati rice	60	72	108	1113	543	454	1046	316	172
Wheat	3.5	0.07	13.5	110	197	0.11	0.32	-	97
Cotton raw incl. waste	63	208	45	61	444	221	49	19	49
Pulses	18	23	29.	39	37	97	53	94	118
Oil meal	534	740	573	703	985	925	461	370	448
Sugar & molasses	122	57	20	152	304	69	6	9	no
Marine Products	602	813	1127	1012	1129	1207	1038	1180	1390
Ground nut	2.7	54.3	32.3	68.6	91.8	152.6	33.2	42.3	69.3
Spices	136	182	195	238	339	380	388	393	356
Tea	337	337	311	351	292	505	538	408	433
Coffee	130	174	335	450	402	457	411	315	260
Tobacco mfd.& Un mfd.	164	147	81	134	213	288	181	229	191
Cashew	257	333	369	370	362	377	387	566	412
Castor Oil	40	92	141	222	177	155	160	245	208
Guargum meal	36	45	45	68	100	147	173	189	129
Poultry & Dairy products	-	-	16	18	35	32	23	28	47
Meat & Prep.	89	110	128	188	200	218	187	180	322
Flouriculture Products	5	6	10	18	18	23	25	21	29
Fresh Fruits	-	-	60	69	69	75	63	66	84
Fresh Vegetables	108	132	79,	89	94	84	65	82	100
Processed Fruit/ Vegetable	41	49	79	104	92	105	109	151	181

Source: Government of India, ^inistry 0fFinance, "Economic Survey", V'arious issues.

Global liberalization of agriculture trade was seen as a great opportunity for promoting farm exports. However, opposed to the expectations and anticipation, the price situation changed dramatically after implementation of Uruguay Round agreement. International prices of agricultural commodities have dropped to a very low level, even in rupee terms and this made Indian market attractive for import of several agricultural commodities.^^ Yet, Indian agriculture has now inherent strength. The cost of production of many agricultural products is lower than these in developed countries, particularly for land and labour. In technology however, It is still lagging behind. There is a massive distortion in international trade in agriculture. However, despite the concern of farmers many believe that the WTO rules will not adversely affect the Indian agriculture. Better overseas market will be available for Indian agricultural products, etc. India can take advantage in this ground also by adopting proper strategy. WTO provides an excellent opportunity to increase agricultural exports from India.

3.4.2. Global Competitiveness of India's Manufacturing Sector.

India's manufacturing sector has undergone a transformation from a protected environment to one of open trade and global competition. India has liberalized this sector significantly. It includes reduction of industrial licensing requirements, reservations of public and small-scale sector reservations, disinvestment of public sector companies, removal of quantitative restrictions. Industrial deregulation and liberalization have opened up opportunities for growth, but at the same time raised many apprehensions. The impacts have been varied across different industries and regions. Manufacturing was the fastest growing segments of India's domestic economy in the 1990s. Growth rates of manufacturing were higher than that of the Republic of Korea, Newly Industrialized Countries (NICs). However, this growth rates were lower than China and the average growth rates in South and East Asia. The Table C-15 and Figure C-x, gives a view of India's manufacturing performance."^

TABLEC-15

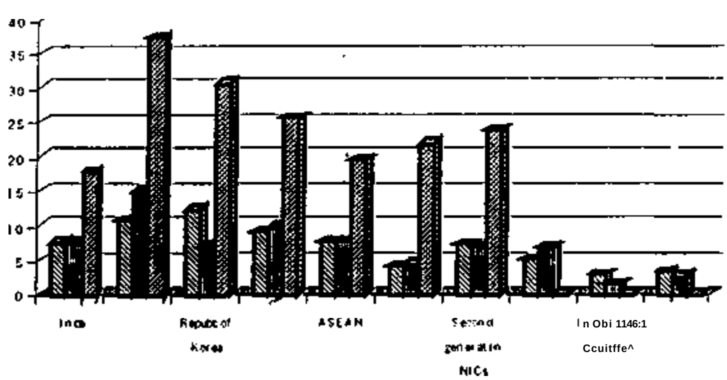
India's Manufacturing Performance in a Comparative Perspective (1980-2000).

(Percent)

Region	Growth of manufacturing value added		Share of manufacturing Value added in GDP
	1980-90	**1990-98**	**1998**
India	**7.4**	**7.4**	17.6
China	10.7	14.7	37.1
Republic of Korea	**12.1**	**6.9**	30.5
South & East Asia	**9.0**	**9.5**	25.4
ASEAN	**7.5**	**7.7**	19.2
Newly Industrialized Countries (NICs)	**4.0**	**4.3**	21.8
Second-generation NICs	**7.1**	**6.7**	23.7
Developing countries (excl. China)	**5.1**	**6.7**	-
Industrialized Countries.	**2.8**	**1.6**	-
World	**3.1**	**2.6**	-

Source: India's Development Report, 2002, p. 86.

Fig: C-x: India's Manufacturing P erformanc e in a Comparative Perspective



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Manufacturing growth was high in the decade of 1990s as a whole, but there are definite signs of a slowdown in growth in recent years. Manufacturing sector plays significant role in India's prosperity and growth. It is growing steadily over the years. However, when compared to other key developing countries, India's perfomiance is quite low. It constituted 75 percent of India's exports for 2001-02. But most of the goods exported are of low tech items. High tech products comprise only 11 percent of India's exports as compared to 67 percent for Malaysia, 21 percent for China and 18 percent for Brazil (TableC-16 & Fig. C-xi).

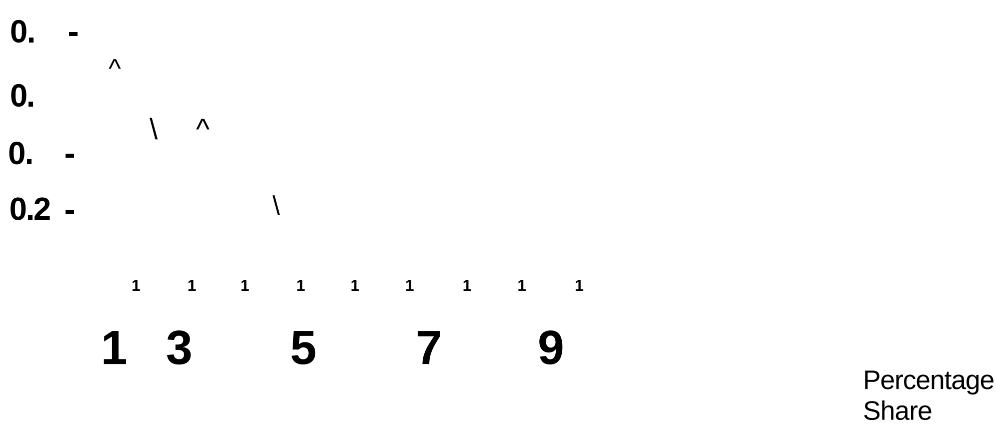
TABLE ; C-16

Percentage of High Tech Exports to Total Exports

COUNRTY	PERCENTAGE SHARE
Malaysia	67 percent
Phillipines	56 percent
Thailand	43 percent
South Korea	39 percent
China	21 percent
Indonesia	20 percent
Brazil	18 percent
India	11 percent

Source : World Development Report, World Bank, 2000.

Fig:C-xi: Percentage of High Tech Exports to Total Exports



As far as exports of manufactured goods is concerned, in 1999-00, exports of manufactured goods recorded a healthy growth of 14 percent as against 3 percent decline recorded in the previous year (Table C-17 and Figure C-xii). During the 1990s the broad commodity composition of manufactured exports has remained unchanged. Gems and jewellery, readymade gannents and cotton, yarn, fabrics and made ups are the major manufactured items exported from India. India is a major supplier **of** polished gems and jewelleiy. It has a flourishing business in importing rough and exporting polished stones. Increased competition and quotas have not deterred the growth of readymade garments and cotton industry."^"

TABLE: C-17

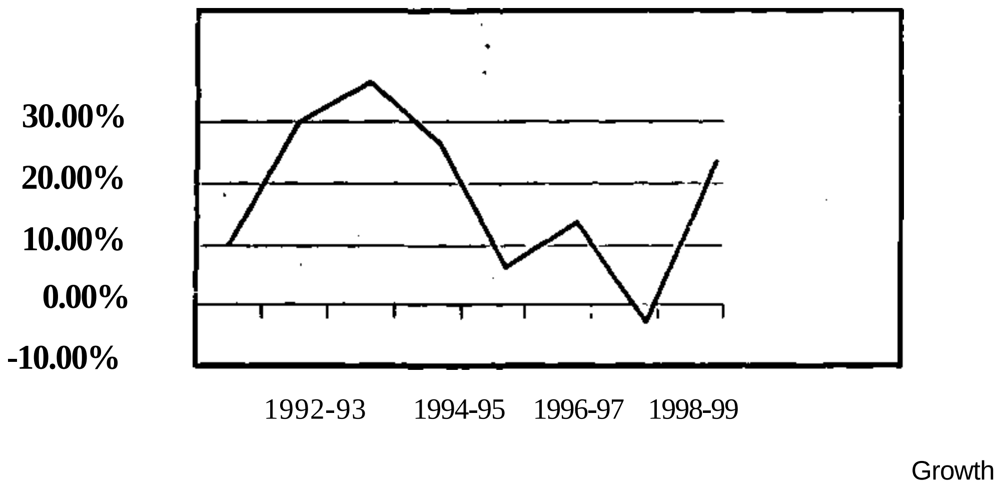
Exports of Manufactured Products

(% change)

Year	**Growth**
1992-93	5.7 %
1993-94	18.8%
1994-95	22.7 %
1995-96	16.5%
1996-97	3.3 %
1997-98	7.9 %
1998-99	-3.0 %
1999-00	14.4%

Source CMIE, Mumbai, July 2000.

Fig: C-xii: Exports of Manufacturing Products (% Change)



It is thus, clear that although Indian manufacturing has been growing in absolute terms, it is in grave danger of getting marginalized in the world market by the South East Asian Tigers and China. Manufacturing growth started accelerating in the 1980s and got a fillip in the 1990s. But in the later part of the 1990s, the growth declined marginally. Despite of progressive liberalization of policies over the last decade, the sectors perfomiance has not been in proportion to the slow pace of reforms, inadequate development of infrastructure, utilities and R & D have combined to keep lagging behind most other developing economies. Several inherent strengths of India need effective persuasion for future. In the world of free and open trade India needs strong policy decisions and its effective implementation, if it has to emerge as a strong global economy."^

3.4.3 WTO AND INDIA'S TEXTILE AND CLOTHING INDUSTRY:

Textiles and Clothing is the largest manufacturing sector in India. It accounts for around 30 percent of India's total merchandise exports, providing employment to 38 million people. It is the largest employer after agriculture.

Exports go mainly in the European Union and United States, both of which maintain restrictions under the Agreement on Textiles and Clothing (ATC).

The Agreement on Textiles and Clothing (ATC) is now an integral part of the WTO with a 10- years transitional agreement and four-stage integration programme. The agreement on Textiles and Clothing (ATC) replaces the Multifibre Arrangement (MFA), which began in 1974. The phasing out of MFA opens up many opportunities and challenges for the developing countries. The phase out restrictions under the ATC are expected to bring significant gains to Indian exporters, especially of cotton, made-up clothing exports to USA and handloom and cottage industry exports to EU. They together accounted for more than 40 percent of India's exports in 1999-00. The Post-MFA scenario opens up innumerable opportunities as the quota constraints are completely removed.

The Indian textile industiy comprises two sectors, the "organized" mill sector and the "decentralized sector", including powerloom and handloom units. The industry has several competitive strengths. India is the world's second largest textile producer after China. It is capable of producing a wide variety of textiles. The industry benefits from a large pool of skilled and inexpensive labour and competent technical and managerial personnel. The government has removed the clothing industry from Small Scale Industiy (SSI) reservation. Since 1997-98, India has removed quantitative restriction on 596 textiles and clothing items. India notified the WTO, that all restrictions previously maintained because of BOP difficulties were removed as of 1 April, 2001. The Indian textile industiy and exports are predominantly cotton based. Cotton is one of the major crop cultivated in India and accounts for more than 75 percent of the total fibre consumption in the spinning mills and for more than 58 percent of the total fibre consumption in the textile sector.^^ At present textile industiy has only a 3 percent share in global markets.

Almost the entire spun yarn (cotton and man made) in India is produced by the mill sector. Cotton yarn has the largest share among this group. It was 72 percent in 1990-2000. Cotton yarn exports increased from limn kg in 1984-85 to 485 mn kg in 1997-98. This earned India, for the first time, the distinction of being the largest exporter of cotton yarn in the world. In value terms also, there has been a rapid increase in export earnings from cotton yarn. The garment industiy consisted of about 58,000 units in December 1999, which were spread across the country. Of this, 48,000 units belonged to the woven sector and the remaining 10,000 units to the knitted sector. The low level of operation has seriously constrained the technological up-gradation of the garment industry. Only 21 percent of the manufacturers used modern technology even by Indian standards and 70 percent were at the stage between modern technology by Indian standards and primitive technology. Only 17 percent had world class plants.^^

The following Table C-18 shows the main items of Indian textile export. Textile exports have increased to $ 4500.37 million in 1998-99 from $ 2870.61 million in 1993-94. $1535.43 million, worths of cotton yarn fabrics made ups were exported in 1993-94, which rose to $ 2771.27 million, in 1998-99. Readymade garments exports stood at $ 4363.96 million in 1998-99. From the table it is revealed that in 1998-99, textiles were the main exports items. In 200-01 textiles exports amounted to $ 5725.40 million.

TABLE: C-18

Indian Textile Export Basket

($ Million)

Item	**1993-94**	**1994-95**	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Textiles (excl. RMG)	2870.6	3811.2	4362.5	4886.7	5180.5	4500.4	5063.1	5725.4
Yarns, Fabrics, Made ups.	"	.	3528.2	4060.3	4360.6	3723,9	4193.8	4896.5
Cotton Yarn fab. made ups	1535.4	2234.4	2580.4	3124.4	3268.2	2771.3	3093.4	3466.4
Manmade Yarn fab. made ups	425.2	614.1	751.9	703.3	805.9	699.9	812.4	1060.2

Contd

Item	1993-94	1994-95	• 1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Natural Silk Yarn fab. Made ups	127.0	136.3	133.4	128.9	176.7	178.1	238.0	307.4
Woolen Yarn fab. Made ups	50.1	60.7	62.5	103.7	109.9	74.6	50.1	62.5
Readymade garments (RMG)	2583.4	3282.8	3681.0	3756.5	3880.9	4364.0	4770.9	5578.0
RMG Cotton	1965.8	2502.7	2830.6	2943.1	2878.0	3146.7	3326.4	3933.5
RMG of manmade fabrics	388.8	457.4	521.0	530.3	691.9	923.3	1009.0	976.6
RMG Silk	82.7	116.0	104.1	77.6	94.5	59.4	124.4	185.1
RMG Wool	58.7	90.9	82.2	86.9	89.9	84.9	177.0	297.5
RMG of other textile materials	87.5	115.8	143.1	118.6	126.7	149.6	134.2	185.2

On January 1, 2005 the MFA was fully phased out and hence the trade in textiles and garments will no longer be subject to quotas. According to an estimate, the Indian textile and apparel, industry is expected to touch $ 30 billion by the end of 2010-11. Exports anticipated to provide the big thrust. With the increasing market access for developing nations, competition is also expected to increase manifold. Cost competitiveness is one of the major concern as India is not in a veiy comfortable position. It has to focus on cost reduction, if it has to compete with Asian textile giant like China and Indonesia. Technology, costs of raw-materials, energy, dyes, chemicals, infrastructure are the other areas of concern. The changes in the textile and clothing sector will bring more risks and challenges than new opportunities, particularly for small exporters. For a countiy like India, it can be a cause of concern. It needs to overcome some of its weaknesses in order to get more advantages.^^

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Chapter-4

4.1 INTRODUCTION:

The General Agreement on Trade in Services (GATS) came into existence as a result of the Uruguay Round of negotiations and entered into force on 1 January 1995, with the establishment of the WTO. It is one of 28 Accords agreed upon in the Uruguay Round and embeded in the Final Act. The main purpose for the creation of the GATS was to create a feasible and reliable system of international trade rules, which ensured fair and equitable treatment of all countries on the principles of non-discrimination. It aims at stimulating trade and development by seeking to create a predictable policy environment wherein the member countries voluntarily undertake to bind their policy regimes relating to trade in services. Sei-vices have been the fastest growing area in international trade. It grows more than 12% per annum compared to 5.6% in the merchandise trade. Both developed and developing countries are increasingly dependent on trade in services rather than manufactures.

India also signed all the WTO agreements under the single undertaking rule and GATS is a part of this whole package. In India, the services sector contributes 47% of the GDP, against 71% in USA, 67% in the U.K., 60% in Japan and 78% in Australia'.

The present chapter analyse the role of services sector in India's international trade under the auspices of WTO. Services play an important role in India's external sector. Surpluses in the invisible account have provided valuable balance of payments support in the face of external shocks. With the advent of structural reforms, and beginning of liberalization process, Indian economy has set on a path of progressive openness and integration with the global economy. The growth rates of the services sector have been consistently accelerating in India. The growth pattern has also been much more consistent and is not much affected by the short run shocks to the economy. The GATS recognizes 4 modes of delivery of services. For the developing countries like India, however, the major mode of interest is mode 4, which relates to the physical movement of natural persons. It is much interested in pushing through its agenda on mode 4 supply of services. Considering the abundance of skilled manpower and professionals that it possesses across a vast range of services, India has been aggressively seeking access for its professionals in the markets of the developed countries. India has already prepared a schedule of commitments specifying limitations on the market access and on national treatment that may be removed, made less restrictive as compared to the trading partner's existing schedules. India so for remain isolated on the issue of movement of natural persons. It has not even been able to align itself with any strong negotiating group whose interests are similar to India .

The potential has to be actualized and we could see the multilateral negotiations under GATS as a means for realizing the potential. The sector of importance could be Computer and Related services. Professional services covering Accountancy, Auditing and Book Keeping services, Architecture services. Medical and Dental services. Audiovisual services. Construction and Engineering services, Educational services and Tourism and Travel related services. In these fields the Indian professionals have core competence and competitive advantage, which needs to be, actualized through liberalization, of delivery of services through mode 4 and also mode 1. India has fairly large comparative advantage *o\ev* other member countries with regard to supply of professional services in these services sectors. For India, mode 1 (cross border supply) and mode 2 (consumption abroad) are also important. By via mode 1, it can deliver professional services electronically and via mode 2, it can provide services such as medical, educational and tourism services to the foreign patients, students and tourists visiting India. It is necessaiy to consider domestic reforms in various services sectors where increased competition is likely to be faced.

Part II of this chapter synthesizes the basic concepts of GATS and its structure. Part III, will crumble the history and main issues related to trade in services before WTO. Part IV, of this chapter highlights the importance of services sector in the global economy. The successive part V, examines the commitments made by India in the GATS. In part VI, a historical review of Indian services sector has been made. Part VII, of the cun'ent chapter provides a sectoral overview of India's tradable services in the context of GATS.

4.2. <u>Trade in Services: Some Basic Concepts and Structure.</u>

There are several different aspects to the study of services. These are, (1) Plurality of definitions of services, in particular the question of incorporation of factor services, and whether return on 'labour' should also get included or not, (2) Statistical inadequacies, (3) Role of service in the development process of developing countries, (4) Growth of services of developed countries, (5) impact of technological developments on services and (6) Services in international trade .

There is need to be clear about concepts like "Services"' 'Trade in Services", "Invisibles" and 'Trade in Invisibles" There is no uniformity among economists regarding the components to be included under the term 'services'. Services in the international context include the following items:

1. Factor services, which include travel, foreign Investment and labour services.
2. Non- factor services, include travel, transportation, port and related services. Insurance, other government services miscellaneous or other private services.

Not all services appearing in the BOP accounts are traded. The item "other government services", included under "services", mainly consists of diplomatic expenditure and certain other adjustment transactions are not trade items. So these cannot be included under the definition of "Trade in services", yet they can be included under the definition of "services". However, tourism and port services are included in the definition of trade in services as foreign exchange transactions are involved for these purposes. Since these services are traded between nationals and foreigners, the place factor does not become important and tourism and port services can necessarily be included under the concept of 'Trade in Services'. Thus, in the international context, trade in services contains all the components of 'services' except other government services.

As far as the concept 'invisibles' is concerned, there does not seem to be much of a controversy among economists. All the factor and non-factor sei"vices together with transfer payments are included under this heading. In the case of 'Invisible trade', transfer payments are not included. Many components in the other government services, government transfers payments and the non-remittances components of private transfers are also not trade items and hence excluded from the concept of 'Invisible trade'. Thus, Invisible Trade' include the following items:

a. Factor services, include foreign investment, labour services.

b. Non-factor services, consist of travel, transportation.

Port and other related services, insurance, and miscellaneous or other private services.

Accordingly the two concepts 'Trade in Invisibles' and 'Trade in Services' can be used synonymously in international trade referring to a wide range of non-merchandise trade, which are not visible to custom officials. Our discussion shows that 'services' are not the same of 'Invisibles', but trade in services' is synonymous with 'trade in invisibles'. But economists have defined these concepts in different ways and in multilateral negotiation on trade in services, all the components of trade in services discussed above have not been included or considered partially. It is either because some negotiating parties have given less importance to some of the components or because they have been dealt separately or include under other headings. For e.g. Foreign investment is partially included in GATS while it is included under TRIMs. Labour sei-vices are also included partially in GATS."

The BOP data does not give contributions from different types of services in exclusive terms. Services that can be commonly offered to international consumers can be defined as banking and insurance in the financial sector, transportation, communication, data service, marketing services, accounting, construction labour, design and engineering, maintenance services, entertainment, education, health care, tourism, and commercial services etc."

General Agreement on Trade in Services (GATS) has defined trade in services as the supply of services:-

a. From the territory of one member into the teiTitoiy of any other member,
b. In the territory of one member to the service consumer of any other member.
c. By a service supplier of one member through commercial presence in the territory of any other member.
d. By a service supplier of one member, through presence of natural persons of a member in the territory of any other member.^

This classification of services trade into four modes of supply addresses the complex nature of international transactions in services and the varied forms in which services are aggregated in consumption, production and distribution related activities and in the form of goods, human capital, and information. This definition of services trade also brings into the purview of GATS regulatory issues concerning investment policies and immigration and labour market legislation, formerly outside the domain of the niuliilaierai irading system.

4.2.1, <u>The Structure of the GATS;</u>

The WTO secretariat has divided all services into the 12 sectors. The GATS provides the framework for the achievement of higher liberalization of trade through successive rounds of multilateral negotiations. The agreement recognizes the special needs of developing countries and provides partly for those needs to facilitate their participation in international trade in services. The agreement consists of six parts, 29 articles and 8 annexures. It is based on three pillars. The first is a framework agreement, which consist of basic obligations. It is applied to member countries. Secondly, the annexures addresses the special situations of individual services sector. The third part of national schedules of commitments contains further national commitments, which will be subject of continuing process of liberalization. There are also nine ministerial decisions in the areas such as basic telecommunications, financial services, maritime services and movement of natural persons. It also comprises of an understanding on commitments in financial services. There are four institutional decisions and a decision on trade in services and the environment.^

TABLE: D-1
The Structure of the GATS

Preamble	**Framework**
Parti	Scope and Definition
Article **I**	Scope and Definition
Part II	General Obligations and Disciplines
Article II	Most-Favoured Nation Treatment
Article **III**	Transparency
Article III bis	Disclosure of Confidential Information
Article IV	Increasing Participation of Developing Countries
Article V	Economic Integration
Article V bis	Labour Markets Integration Agreements
Article VI	Domestic Regulation
Article VII	Recognition
Article VIII	Monopolies and Exclusive Service Suppliers
Article IX	Business Practices
Article X	Emergency Safeguard Measures
Article XI	Payments and Transfers
Article XII	Restrictions to Safeguard the Balance of Payments
Article XIII	Government Procurement
Article XIV	General Exceptions
Article XIV bis	Security Exceptions
Article XV	Subsidies
Part III	Specific Commitments
Article XVI	Market Access
Article XVII	National Treatment
Article XVIII	Additional Commitments
Part IV	Progressive Liberalization
Article XIX	Negotiation of Specific Commitments
Article XX	Schedules of Specific Commitments

Article XXI	Modification of Schedules
PartV	Institutional Provisions
Article XXII	Consultation
Article XXIII	Dispute Settlement and Enforcement
Article XXIV	Council for Trade in Services
Article XXV	Technical Co-operation
Article XXVI	Relationship with other International organizations
Part VI	Final Provisions
Article XXVII	Denial of Benefits
Article XXVIII	Definitions

Annexes:

Annexes on Article II Exemptions

Annex on Movement of Natural Persons Supplying Services under the Agreement.

Annex on Financial Services

Annex on Telecommunications

Annex on Air Transport Services

Annex on Negotiations on Basic Telecommunications.

Annex on Negotiation on Maritime Transport Services.

Ministerial Decisions:

Decision on Institutional Arrangements for the General Agreement on Trade in Services.

Decision on Certain Dispute Settlement Procedures for the General Agreement on Trade in Services.

Decision on Negotiations on Basic Telecommunications Understanding on Commitments in Financial Services.

Decision on Financial Services.

Decision on Professional Services

Decision on Negotiations on Movement of Natural Persons

Decision on Trade on Services and the Environment.

Decision on Negotiations on Maritime Transport Services.

Source:-Sauve Pierre (1995): "Evaluating the Uruguay Round, The World Economy, Volume 18, No. 1, January 1995; pp. 129-130.

4.3 Trade in Services before WTO: History & Issues.

Trade in services was first covered by international trade agreements during the Uruguay Round, but the histoiy of such discussions dates back to the late 1970s. At that time US aimed to expand GATT rules to facilitate the expansion of the global operations of transnational corporations within a predictable and universal contractual framework. The concept of "trade in services" was invented for this purpose. However, only few developing countries support the idea. They believed that doing so was a obscure attempt to introduce investment into the negotiations. Developing countries accepted the admission of trade in sei-vices in the Punta del Este declaration of 1986 only on the condition that negotiations on trade is services would occur separately from those on trade in goods, with a clear development orientation.

The first meeting on services brought together the issue of defining 'trade in services'. At the Montreal mid-term ministerial meeting in 1988, it was agreed that the definition of trade in services should include movement of factors of production. Here such movement was essential to suppliers. This was recognized as a victory for developing countries. But this definition did not cover permanent establishment or immigration. Between the Montreal and Brussels ministerial meetings (in 1990) much work was done to refine the definitions both of trade in services and of 'barriers' to such trade. It was decided at the insistence of developing countries that national treatment should be a subject for negotiations of specific sectoral and sub-sectoral commitments. The structure of GATS reflects proposals by developing countries. At the end of the Uruguay Round it was agreed to continue negotiations on three sectors and one mode of supply (movement of natural persons) under the GATS. Accordingly, agreements have been reached on basic telecommunications and financial services. This had resulted in substantial liberalization commitments, especially in the form of access to investment. At the end of the Uruguay Round the GATS also left open for future negotiations articles on emergency safeguard mechanisms, government procurement and subsides. As these issues were not completed in the first round, they became part of the new round.^

Accordingly, the issues before WTO in the services sector can be broadly classified into two group, namely, (1) Unfinished business under the framework agreement, i.e., the General Agreement on Trade in Services (GATS), and (2) Unfinished business relating to market access negotiations. The first category would include rules in the framework agreements that were left to be negotiated after the closure of the Uruguay Round. The GATS also provided time frames for most cases, within which these issues were to be negotiated. This comprises of emergency safeguard measures, government procurement and subsidies. Qualification requirements and procedures, technical standards and licensing requirements are the other important articles on which negotiations have to continue. These issues are the part of categoiy 1. This also consist of ministerial decisions on negotiating disciplines with regard to professional services which covers areas of qualification requirements and procedures, technical standards and licensing requirements.

The other type is the unfinished business relating to market access negotiations. At the end of the round the members agreed that they would continue to negotiate in 4 major areas. Viz., Financial services, Basic Telecom, Maritime sector. Movement of Natural Persons. Another most important pending issue in services was regarding measuring trade in services. This belongs more to first category, but has a correlation with the second one. The basic Problem in this area is the current state of statistics in production as well as trade in services. Recently, there have been efforts at improving data collection and information in these areas. OECD has done some work. Still, much more are required to be done both nationally and internationally. This is very much a concern of WTO as of other organizations and even for the WTO member countries. The final destination is to have dependable, comparable, and timely information.'°

The above discussed are in short the main issues before WTO, which were of immediate concern for India.

4.4 **The** Services Sector in **the** Global Economy;

Services are very important today for the world in general and Asia and India in particular. It has been the fastest growing area in international trade. It grows more than 12 percent Per annum compared to 5-6 percent in the merchandise trade. Both developed and developing countries are increasingly dependent on trade in services rather than manufactures. Negotiations in services are mandated negotiations. It was mandated by Uruguay Round on services in 1995. This has commenced from 1.1.2000 and is continuing.

World trade in services has not changed in direction since its introduction in the multilateral trading system from the Uruguay Round effective from 1.1.1995. It has mostly taken place between developed countries whether it is the plethora of financial services, or the whole gamut of hotel and tourism-related activities, whether it is transport-communication or different types of community services, each segment has today become a huge industiy on its own, churning out billions of dollars annually, and, engaging millions of persons, either directly or indirectly.

North America and West Europe account for 70% of the world exports of commercial services and they also account for 70% of the imports of commercial services. Between 1990 and 2000, growth of world services output was 2.9%, double that of agriculture which was only 1.4%. As a result, the contribution of the services sector to world GDP was 64% in the year 2000, compared to 57% in 1990." However in 2001, world commercial services trade stagnated after recording an expansion of 6% in 2000. The sharp deceleration in world services trade must be attributed largely to trade developments in Asia and North America, although Latin America and the Middle East also experienced a stagnation or decline in their trade. The birth of this modification in commercial services trade can be found in the developments in the US commercial services imports, which decline by 7% in 2001 after an expansion of 16% in the previous year.

USA ranked first in the world exports of commercial services with $ 263.4 billion in 2001. This was followed by U.K. ($ 108.4bn), France ($ 79.8 bn), Germany ($ 79.7 bn), Japan ($ 63.7 bn), Spain ($ 57.4 bn), Canada ($ 35.6 bn). Singapore, Switzerland, Sweden, Denmark, Austria, ranged their exports between $ 32.5 bn, and $ 21.8 bn, and so on. In relative temis US shared about 18.1 percent in the world exports of services followed by U.K. (7.4%), France (5.5%), Germany (5.5%), Japan (4.4%), Spain (3.9%), Italy (3.9%), Nether lands (3.5%), Belgium-Luxembourg (2.9%), Hong Kong- China (2.9%), Canada (2.4%). The percentage share of other countries ranged between 2.3% and 0.3%.

As regards imports of services in the world, US also stood first with $ 187.7 bn in 2001 followed by Germany ($ 132.6 bn), Japan ($ 107.0 bn), U.K. ($91.6 bn), France ($ 61.6 bn) and so on. Percentage share of US was 13.0 and that of Germany 9.2. Japan with 7.4%, U.K. with 6.3%, France with 4.3%, Italy with 3.9%, were the other important importers of services in the world. ~

TABLE; D-2

Leading Exporters and Importers in World Trade in Commercial Services, 2001

(Billion Dollars and Percentage)

Rank	I£\p<)rlcis	Value	Share	Annual-%age change	Rank	Ini|T<)riers	Value	Share	Annual %;\gc change
1.	U.S.	263.4	18.1	-3	1.	U.S.	187.7	13.0	-7
2.	U.K.	108.4	7.4	-6	2.	Germany	132.6	9.2	0
3.	France	79.8	5.5	-2	3.	Japan	107.0	7.4	-7
4.	Germany	79.7	5.5	-1	4.	U. K	91.6	6.3	-4
5.	Japan	63.7	4.4	-7	5.	France	61.6	4.3	0
6.	Spain	57.4	3.9	8	6.	Italy	55.7	3.9	2
7.	Italy	57.0	3.9	2	7.	Netherlands	52.9	3.7	2
8.	Netherlands	51.7	3.5	0	8.	Canada	41.5	2.9	-3
9.	Belgium Luxemburg	42.6	2.9	-1	9.	Belgium Luxemburg	39.3	2.7	2
10.	Hong Kong, China	42.4	2.9	2	10.	China	39.0	2.7	9
II.	Canada	35.6	2.4	-5	II.	Ireland	34.8	2.4	21
12.	China	32.9	2.3	9	12.	Spain	33.2	2.3	7

13.	Austria	32.5	2.2	5	13.	Korea, Rep.	33.1	2.3	0
14.	Korea, Rep.	29.6	2.0	0	14	Austria	31.5	2.2	6
15.	Denmark	26.9	1.8	10	15.	Hong Kong, China	25.1	1.7	-2
16.	Singapore	26.4	1.8	-2	16.	Taipei, Chinese	23.7	1.6	-8
17.	Switzerland	25.2	1.7	-4	17.	Denmark	23.5	1.6	6
18.	Sweden	21.8	1.5	9	18.	India	23.4	1.6	19
19.	India	20.4	1.4	15	19.	Sweden	22.9	1.6	-2
20.	Taipei, Chinese	20.3	1.4	2	20.	Russian Federation	21.1	1.5	20
21.	Ireland	20.0	1.4	20	21.	Singapore	20.0	1.4	-6
22.	Greece	19.4	1.3	1	22.	Malaysia	16.5	1.1	0
23.	Norway	16.7	1.1	12	23.	Mexico	16.5	I.I	-1
24.	Turkey	15.9	1.1	-17	24.	Australia	16.4	1.1	-8
25.	Australia	15.7	1.1	-12	25.	Brazil	15.8	1.1	0
26.	Malaysia	14.0	1.0	3	26.	Norway	15.3	1.1	-6
27.	Thailand	12.9	0.9	-6	27.	Switzerland	14.9	1.0	-3
28.	Mexico	12.5	0.9	-7	28.	Thailand	14.5	1.0	-J
29.	Poland	11.9	0.8	14	29.	Indonesia	14.5	1.0	-
30.	Israel	11.3	0.8	-21	30.	Israel	12.3	0.9	1
31.	Russian Fed.	10.9	0.7	9	31.	Greece	11.2	0.8	2
32.	Egypt	8.8	0.6	-9	32.	U. A. E.	10.5	0.7	—
33.	Brazil	8.7	0.6	-1	33.	Poland	8.7	0.6	-2
34.	Portugal	8.7	0.6	4	34.	Finland	8.1	0.6	-J
35.	Hungry	7.6	0.5	23	35.	Argentina	7.9	0.5	-8
36.	Czech Rep.	6.9	0.5	4	36.	Saudi Arabia	7.2	0.5	-35
37.	Finland	5.7	0.4	-6	37.	Egypt	6.5	0.4	-10
38.	Saudi Arabia	5.2	0.4	8	38.	Turkey	6.4	0.4	-16
39.	Indonesia	5.2	0.4	—	39.	Portugal	6.0	0.4	-5
40.	Croatia	4.8	0.3	18	40.	Czech Rep.	5.5	0.4	3
Total of above		1340.0	91.9	-1	Total of above		1315.0	91.1	-1
World		1460.0	100.0	0	World		1445.0	100.0	-1

Source: WTO, International Trade Statistics, 2002, Geneva.

Developing countries have also not lagged behind in this process and increasing portions of their economies is also getting more and more services-determined and services driven. For most economies services have been the most rapidly growing sectors. In 1990-2001, the services sectors grew by 3.9% a year in developing and transition economies. Among developing regions. South Asia had the fastest growth in services, in the 1990s (7%) a year, and Europe and Central Asia the slowest (1.8%) (Table D-3).

Growth of World Oiitnut

Regions	GDP Average Annual % Growth		Agriculture Average annual % growth		Industry Average Annual % Growth		Mfg. Average Annual % Growth		Services Average Annual % Growth	
	1980-90	1990-01	1980-90	1990-01	1980-90	1990-01	1980-90	1990-01	1980-90	1990-01
World	3.3	2.7	2.6	1.8	3.1	2.1	.	2.9	3.5	3.1
Low income	4.5	3.4	3.0	2.6	5.5	2.9	7.7	3.0	5.5	5.1
Middle income	2.9	3.4	3.4	2.1	3.2	3.7	3.7	5.7	3.2	3.7
Lx)wer Middle income	4.0	3.7	3.9	2.1	5.2	4.2	6.3	7.9	5.0	4.1
Upper Middle income	1.7	3.1	2.3	2.2	1.5	3.0	1.6	2.9	2.0	3.3
Low & Middle Income	3.2	3.4	3.3	2.2	3.6	3.6	4.2	5.2	3.6	3.9
East Asia & Pacific	7.5	7.5	4.6	3.2	8.4	10.1	9.5	10.0	8.6	6.5
Europe & Central Asia	2.1	-1.0	-	-1.9	-	-3.0	-	-	-	1.8
Latin America & Carib.	1.7	3.2	2.3	2.4	1.4	2.9	1.4	2.1	1.9	3.2
Middle East & North Africa	2.0	3.0	4.0	3.0	-	-	-	4.2	-	-
South Asia	5.6	5.5	3.2	3.1	6.8	6.0	7.1	6.4	6.5	7.0
Sub-Saharan Africa	1.6	2.6	2.2	2.8	1.2	1.7	1.7	1.6	2.4	2.8
Hii>h Income	3.3	2.5	1.9	1.1	3.0	1.8	.	2.4	3.5	3.0
Europe EMU	2.4	2.0	1.3	1.6	1.6	1.1	-	1.2	2.9	2.3

Source: World Development Indicator, World Bank, 2003.

In developing economies services generated more than half of GDP in 2001, compared with 70% in high-income economies. But in East Asia and Pacific, services produced only 36% of GDP in 2001. This shows that trade in services has grown fastly. Most developing economies are following familiar patterns of growth, with agriculture giving way first to manufacturing and later to services as the main source of income. But some, such as Jordan and Panama, have moved directly from agriculture to service based economies. The structure of trade in services is also changing. Transport services are being replaced in importance by travel services. Now, many developing countries are emerging as exporters of these new services along with computer, information and business services. Among the developing countries, major exporters of merchandise also tend to be major exporters of commercial services. The exceptions are fuel exporters, Saudi Arabia and Indonesia.

After briefly describing some recent trends in the share of as well as in the growth of the services economy in the world, it can be said that about two-third of the world GDP comprises of services. Expansion in the share and role of services has been faster. With the already insignificant share of Agriculture in these economies, the share of manufacturing is being increasingly replaced by the services sector. As far as the developing nations are concerned, it shows that trade in services has grown rapidly, but trade in merchandise-primary commodities and manufactured goods continues to dominate in most of the developing worlds. World export of commercial services is further expected to take a big jump forward mainly on account of the factors such as advancement in generic technology of computers and telecommunications, globalisation and liberalisation policies creating linkages in service transactions, growth in world demand for a variety of services, rise in electronic commerce, sourcing out of services to outside firms and the multilateral trading rules in services as embodied in GATS and other agreements of World Trade Organization (WTO).

4.5 India's Commitments in the GATS:

India has submitted a coiiiprchcr.sive !ist of commitments to the GATS in connection with liberalising its service trade, hidia has made commitments in 33 activities, compared with an average of 23 for the developing countries. It has not made any commitment on services relating to distribution, education, environment, recreational, cultural and sporting, transport, etc. India has further liberalised its commitments in the basic telecommunication services in early 1988. It has offered zero tariffs on 217 information technology related tariff lines by 2005. Along with the list of commitments, India also submitted a list of services for which it wants exemptions from MFN treatment. The areas of services are, telecommunication services, international service, audio visual services, shipping and recreational services.

India's national schedules of specific commitments consist of two parts, viz., horizontal commitments and sector-specific commitments. Horizontal commitments consider all sectors included in the schedule. In this segment, market access commitment is unbound (which means there is no specific commitment) for mode 4 supply of services (i.e. movement of natural persons) except business visitors, intra corporate transferees. Intra corporate transferees include managers, executives and specialists and professionals under certain circumstances. Sector specific commitments are extended to business services, which comprise engineering services, computer and related services, research and development services and technical testing and analysis services. Others areas of commitments are communication sei-vices, which include telecommunication services, voice telephone services, electronic mail and voice mail services and audio visual services. Construction and related engineering services, included construction work for civil engineering of different types. Financial services include insurance and insurance related services, banks and other related services. Finally, commitments are also made to health related and social services and tourism and travel related services.

On electronic mail, voice mail, on line information, market access is permitted only through incorporation with a foreign equity ceiling of 51 percent (mode3) and unbound (mode 4), on cellular mobile telephone services, market access through mode 3 is permitted only after the operator gets a license from the designated authority, who shall determine the need, if any, for issuance of new licenses. The right of DOT/MTNL to enter into each service area is reserved. The private operator should be a company registered in India in which total foreign equit}' must not exceed 25 percent. The detailed terms and conditions for providing services will be as per license condition. In banking and other financial services, market access commitments are limited to mode 3 supply, i.e. commercial presence only. As regards limitations on national treatment is concerned, foreign banks are required to constitute Local Advisoiy Boards consisting interalia of professionals and persons having expertise in areas such as small scale industry and exports. The chairman and members of the Local

Advisoiy Board must be Indian nationals except for the chief executive officer who may be a foreign national. These commitments generally bind hidia's existing policy framework, though in some cases applied policy may be more liberal than the binding commitments."'

4.6. <u>The Services Sector in India : A Historical Overview.</u>

Services sector has acted as a mainspring of India's economic growth. Trade in services in particular, tourism and professional services have acted as engines of economic growth in India. These are providing considerable foreign exchange earnings as well as remittances from the NRIs. In the world trade in services, India's share is approximately one percent. It contributes around 50% of the country's GDP, and 31% of total exports.

In 1950-51, only 28% of the GDP Originated in the services sector, as more than 55 percent of GDP came from agriculture and allied activities. The composition of the economy has passed off with a sea change, over the last 5 decades. Among the three major sectors of the economy, the services sector has become the largest. It is followed by the industiy and the agricultural sector has been forced down to the third position. Indian economy is sharing the global development experience of expanding services and industry sectors and a contracting agricultural sector. The share of the agricultural sector has gone down from 57.7%, in GDP in 1950-51 to 25.2% in 1999-2000. (Table D-4 and Figure D-i)

<u>TABLE: D-4</u>
Share of GDP by Industry of Origin
(At 1993-94 Prices)

	Percentage Distribution		
	1950-51	**1980-81**	**1999-00**
I. Agriculture etc	57.7	39.7	25.2
1. Agriculture	50.2	35.8	23.2
2. Forestiy	**6.7**	**3.0**	**1.1**
3. Fishing	*0.9*	**1.0**	**I.O**

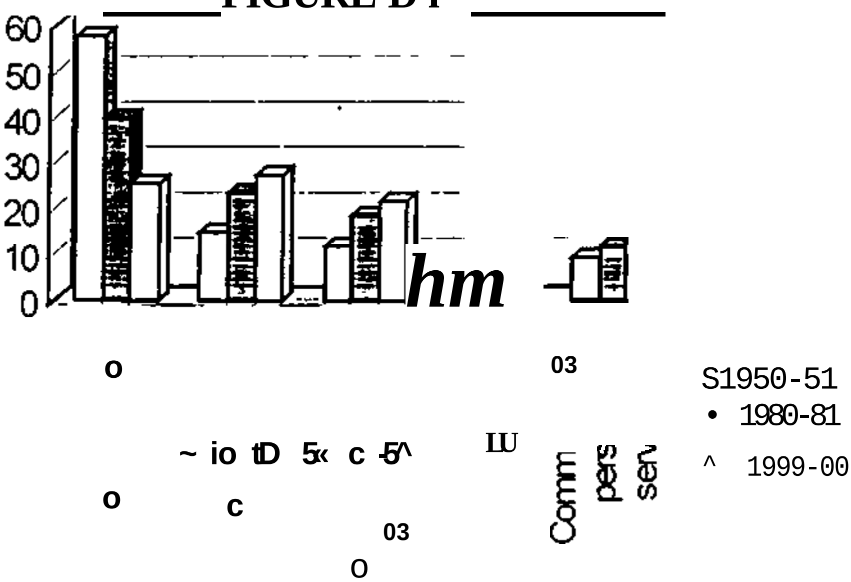
Coiitd

	Percentage Distribution		
	1950-51	**1980-81**	**1999-00**
11. Mining Maniifncturing etc.	**14.8**	23.7	27.0
I. Mining & Quanying	**1.5**	2.1	**2.3**
2. Manufacturing	**8.9**	13.8	**17.1**
a. Registered	**4.4**	**8.1**	11.3
b. Unregistered	**4.5**	**5.8**	**5.8**
3. Electricity, g as & water supply	0.3	1.7	**2.5**
4. Construction	**4.1**	**6.1**	**5.1**
III. Transport, Communication & Trade etc.	**11.9**	**18.4**	21.9
IV. Finance and Real Estate	**6.7**	**6.5**	12.7
V. Community & Personal Services	**9.4**	11.7	13.2
A. Commodity Sector (I+II)	72.0	63.4	52.2
B. Services Sector (III+IV+V)	28.0	36.6	47.8
Total	**100.0**	**100.0**	**100.0**

Source: EPW Research Foundation (2002), National Accounts Statistics of India (1950-51 to 2000-01)

SHARE OF GDP BY INDUSTR OF ORIQN (AT 1993 - 94 PRICES)

FIGURE D-i



In India, growth rate of commercial services in the 1990s was 14.5%, more than double that of world trade (6.4%)

As far as the composition of the services sector is concerned, during 1950-51, financial and business services had the largest share in the services sector. It was followed by community and personal services, then by trade, hotels and restaurants. Transport and communication had contributed just 12% of the services sector. Notwithstanding, by 1995-96, business and financial services had gained their position with the trade and hotels activities. It became the largest activity in the sei-vices sector. Community and personal services continued to be at the second position but their share had fell down to 27%. Transport & communication have taken into their share in the services sector to 18%. Financial and business services witnessed a continuous loss in their share."' Yet, these services have registered a much better growth performance in the recent period. In the recent years India has emerged as a major exporter of software. The Indian National Association of Software and services companies estimates that the software industry was valued at $15 million at the start of the 1990s, and climbed to $2.7 billion by the end of the decade. The share of software exports in total exports grew from a negligible amount in 1990 to 14% in 2000-01. Part of this success is due to the countr)"s emphasis on training high-level scientific and technical personnel, across a wide range of disciplines.

Software and other miscellaneous services (including professional, technical and business services have emerged as the main categories in India's export of services. The buoyant growth of professional, technical and business services has provided a cushion against the slowdown in traditional services such as travel and transportation. The share of other miscellaneous services stood at 18.7% in 2003-04 (Table D-5 and Figure D-ii)

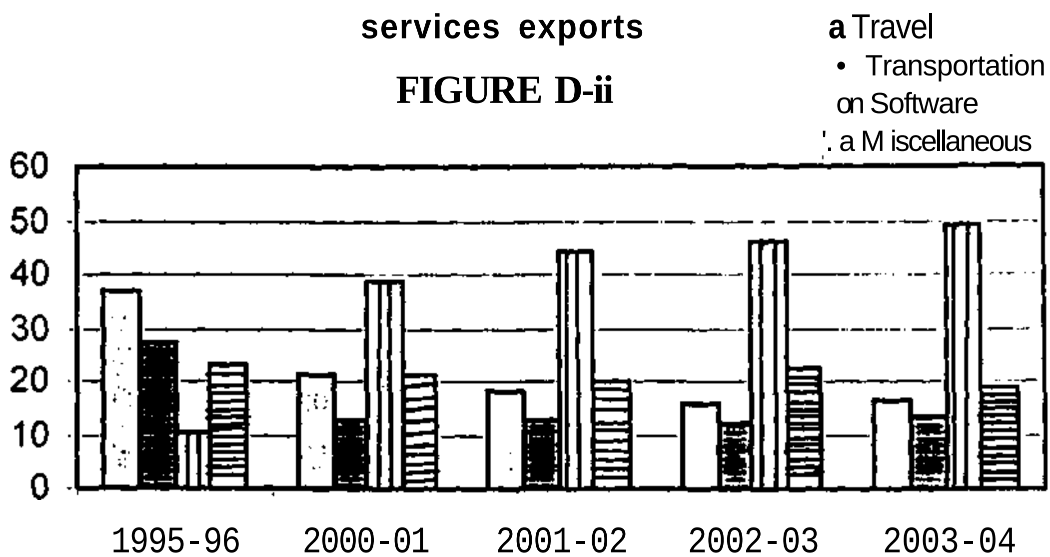
TABLE :D-5
Export of Major Services as Percent of Total
Services Exports

Year	**Travel**	**Transportation**	Software	Miscellaneous
1995-96	36.9	27.4	10.2	22.9
2000-01	**21.5**	12.6	39.0	21.3
2001-02	**18.3**	12.6	44.1	20.3
2002-03	16.0	12.2	46.2	22.4
2003-04	**16.5**	13.1	48.9	18.7

Source : Government of India, Ministry of Finance, "Economic Survey", 2004-05.

Export of major services as percent of tota! services exports

FIGURE D-ii



The growth in services is much more stable than in agriculture or inclusliy. The rising share of services in GDP implies that growth volatility is also declining over time. The growth acceleration in services to become the largest sector in the economy relates to several factors. A growth decomposition exercise shows that, it is not just a statistical artifact arising from pay raises and the expansion of llie wage bill in public administration, Nor it is attributable to the highly visible growth of software services, since their weight and contribution to total services sector growth is still limited. The two sub-sectors of trade, hotels and restaurants, and transport and communication account for Just more than half of total services sector growth in recent years and financial services account for just over one fifth of it. A recent IMF study suggests that growth acceleration in the services sector is explained by high income elasticity of demand, user industiy demand, and rising exports, in addition to reforms and technological advances.'^

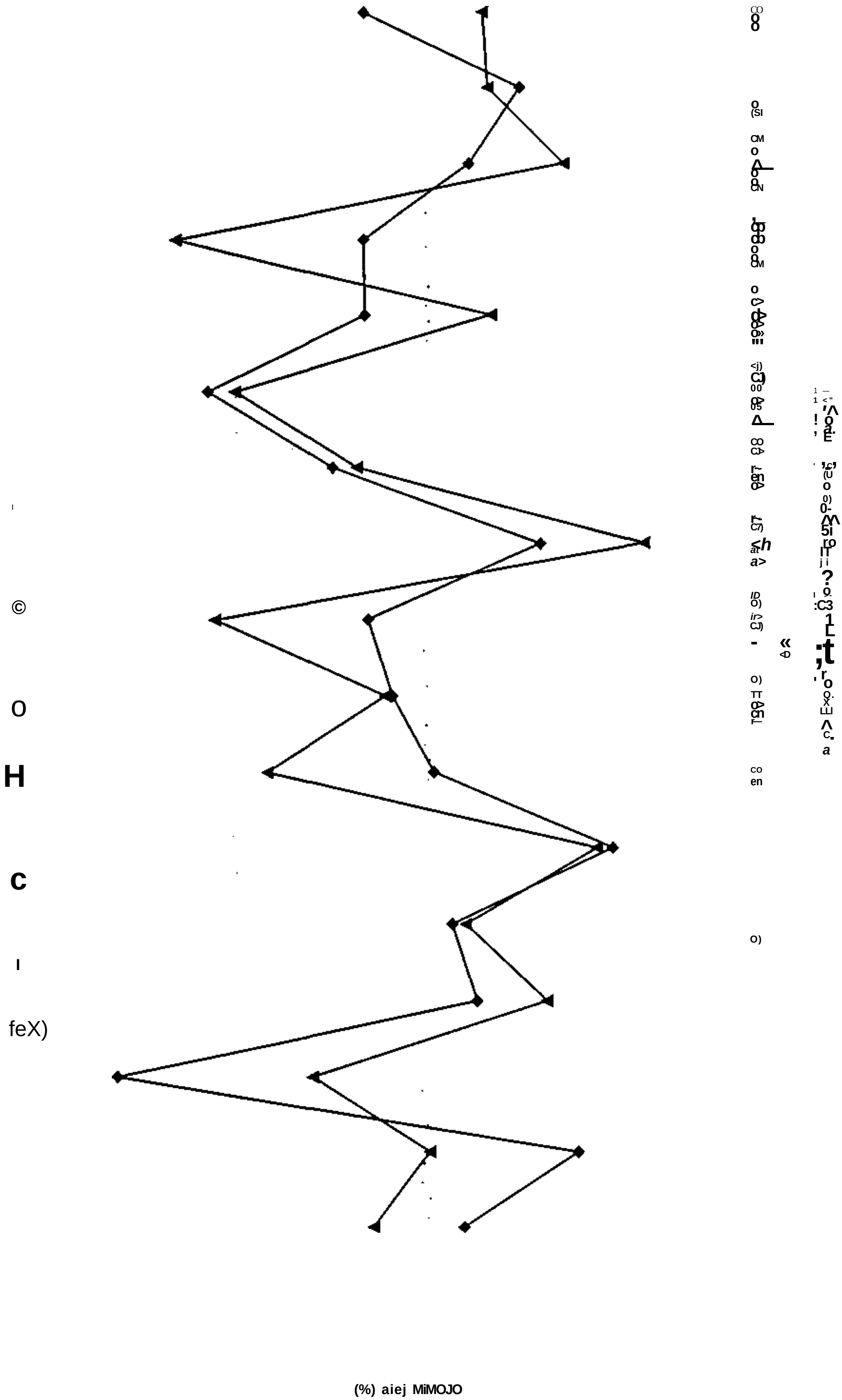
As far as India's trade in commercial services is concerned. It is revealed from the Table D-6 and figure D-iii, that during 1950-51, India's export in commercial services amounted to $148 million, which went up to $222 million in 1960-61, and further to $252 million in 1970-71. Exports climbed from $2693 million in 1980-81 to $4536 million in 1990-91. It was again reached to $24667million in 2003-04. There has been rapid increase in export of commercial services. The component miscellaneous services, which includes IT enable and software sei^vices, has performed particularly well. Services exports grew by 20.5% in 2003-04.

TABLE :P-6

India's Trade in Commercial Services (US $ million)

Year	Imports	Exports	Balance	Growth Rate (Percent)	
				Exports	Imports
1950-51	148	95	53	-	-
1960-61	222	165	57	8.8	18.7
1970-71	252	250	2	-3.4	12.6
1980-81	2693	1447	1246	46.8	25.5
1990-91	4536	3398	1138	7.6	0.05
1991-92	5005	3696	1309	10.3	8.8
1992-93	4655	3501	1154	-7.0	-5.3
1993-94	5234	4576	658	12.4	30.7
1994-95	6125	5368	757	17.0	17.8
1995-96	7333	7325	8	19.7	36.5
1996-97	7402	6570	832	0.9	-10.3
1997-98	9153	7950	1203	23.7	21.0
1998-99	12589	10696	1893	37.5	34.5
1999-00	15127	11375	3752	20.2	6.3
2000-01	18213	16051	2162	20.4	41.1
2001-02	19817	15815	4002	8.8	-1.5
2002-03	20470	16892	3578	[illegible]	6.8
2003-04	24667	18146	6521	20.5	7.5

Source : Computed from the data given in Handbootc of Statistics on Indian Economy, RBI, 2002-03, Economic Survey, 2004-05.



As regards India's imports in services, it was as low as $95 million in 1950-51, which after a gap of 3 decades, increased to $1447 million in 1980-81. It was sharply increased to $ 3398 million in.1990-91 and further to $ 18146 million in 2003-04. Imports rose by 7.4% during the year 2003-2004. In the beginning of 1970s the balance in trade in services was $ 2 million in 1970-71. It stood at $ 6521 million in 2003-04. The growth of net invisibles, invisibles receipts and payment witness that India's invisible trade always generated surplus. It also reflects the positive impact of foreign trade and investment policy changes with regard to invisibles. It means invisibles are playing their crucial role in covering the current account deficit. It is playing its dominant role in earning foreign exchange of our country. The level of India's exports in services, its growth rate and the share in world trade indicates that we have significant potential in trade in services.

As far as direction of invisible trade of India is concerned, each region of trade has been separately classified accdrding to RBI norms. These are:

I. The Sterling Area, includes whole of common wealth countries.

II. The Dollar Area, is constituted by the USA and other North American and Latin American countries.

III. The Organization of Economic Cooperation and Development (OECD), Area consists of industrial countries, but excludes U.K. and Australia (which are taken under Sterling Area), USA and Canada (Dollar Area) and Japan.

IV. All other countries are clubbed under the Rest of Non-Sterling Area (RNSA).

V. International Institutions (IMF, WB, IFC, UN Funding Agencies, EEC, OPEC Funds and etc.)

The share of two regions, namely Dollar and OECD area in India's invisible balance has moved up, while the proportion of other areas has declined. Currently, Dollar Area is Oven'iding region with respect to services trade with India. The percentage share of Sterling Area has considerably came down. Yet, Dollar Area and Sterling Area is still principal area of India's invisible trade. It is *also noted that* proportion of OECD and RNSA area in India's invisible trade balance has increased more rapidly during Post WTO than Pre WTO Period.

Thus, from the above study it is revealed that the Indian economy has come to that stage of development where the role of services sector has become more and more dominating. The services sector has witnessed an accelerating growth, especially since the eighties. Reform in infrastructure and other services has been undertaken since the early 1990s with varying degrees of success. In several services including banking and electricity, liberalisation began in the early 1990s. It is also recognized that India's infrastructure required both a massive increase in investment and greater efficiency in order to support economic growth. As a significant and growing contributor to the economy, an efficient services sector is crucial for economic growth.

4.7. Sectoral Perspective of India's Trade in Services;

4.7.1 Financial Services:

Financial ser\'ices consist of all insurance and insurance related services, banking and other financial services. li is any service of a financial nature offered by a financial ser\ice supplier of a member. They may be supplied either by the private sector, or by the public sector. Services supplied in the exercise of governmental authority shall not be covered by the agreement. GATS allow its members for the protection of investors including institutional ones, deposit holders and policy holders to ensure the integrity and stability of its financial system. It permits the use of temporaiy non-discriminatoiy restrictions on transfers in the event of serious BOP or financial difficulties. Each member shall grant financial service suppliers of any other member the right to establish a commercial presence or expand within its territory, including the acquisition of existing enterprises. Liberalization and opening,of financial sector to global winds in place of closed regimes have brought faster growth for developed and developing countries.

Due to political uncertainty that prevailed in the countiy at the time of negotiations, the Indian offer at the WTO was restricted to a few commitments. India has opened up services sector where there are spin off benefits by way of technology transfer, investment or employment. India has agreed to increase the lower limit on permitting foreign banks to set up branches in India on a rational and non-discriminatoiy basis. On insurance, our offer is limited to insurance of freight and re-insurance. It has agreed to remove the 10 percent ceiling on reinsurance by Indian insurance companies in foreign firms. India has however gained Most-Favoured Nation (MFN) obligations for the markets. On retail banking the offer is limited to a stand still."

Financial services enjoy a place of pride in the services sector in India. India has a well developed banking and financial services sector served by RBI, a number of commercial banks, public .and private sector banks, foreign banks, cooperative banks and special financial institutions set up to take care of various sectors of the economy. Foreign banks play an important part in Indian financial system. The principle of reciprocit}' has also helped in the opening of foreign banks in the country. Infact many foreign banks enjoy more national treatment than accorded to the national banks.'^ India has accepted the philosophy of globalization of the economy in our financial sector in which more competitiveness in global economy is inevitable. Under the WTO agreement, India has accepted a proposal for opening foreign banks, branches in a city, which means Indian public sector banks have to compete with foreign banks.

The world of finance has changed markedly over the last 30 years or so. The change has been brought about by a number of events and circumstances. With trade being subject to multilateral negotiations, the process of deregulation and globalisation of financial markets helped the process of globalization of financial markets. India has undertaken some reforms in the financial sector in the nineties. The financial sector reform is a part of the structural adjustment programme. It was initiated in 1991, the basic philosophy of which is to build a market-led economy. It was started on the basis of Narasimham Committee Report. The main thrust was on the banking sector. Some of the major banking sector reforms that have been undertaken by the government over the last few years include, the deregulation of entry of new private sector banks, both domestic and foreign, liberalisation of branch licensing policy, phased deregulation of interest rates on deposits and advances, introduction of capital adequacy norms, etc.'^ Prior to reform, no new private sector commercial banks were permitted to be set up since 1972. With a view to providing greater choice to customers and promoting competition, the Reserve Bank has become more liberal in permitting the entiy of new private banks and foreign banks. At the end of March, 2002, there were 8 new private sector banks and 40 foreign banks in India.

Until early 1990s, the role of the financial system in India was primarily restricted to the function of channelising resources from suiplus to deficit sectors. The most significant achievement of financial sector reforms has been a marked improvement in the financial health of the commercial banking sector, which constitutes the most important segment of the Indian financial system. Aggregate deposits of scheduled commercial banks increased from 37988 in 1980-81 to 962618 in 2000-2001. (Table : D-7)

TABLE : D-7

Se **cct Aggregates of Scheduled Commercial Banks Outstanding**

Year	Aiisrefiate deposits	Bank Credit	Food Credit	Non-Food Credit
1980-81	37988	25371	1759	23612
1990-91	192541	116301	4506	111795
1991-92	230758	125592	4670	120922
1992-93	268572	151982	6743	145239
1993-94	315132	164418	10907	153510
1994-95	386859	211560	12275	199286
1995-96	433819	254015	9791	244224
1996-97	505599	278401	7597	270805
1997-98	598485	324079	12485	311594
1998-99	714025	368837	16816	352021
1999-00	813345	435958	25691	410267
2000-01	962618	511434	39991	471443

Source: *RBI, Handbook* of Statistics on *Indian* Economy, 2002-03.

The system today is varied, with a well-diversified structure of financial institution, financial companies and mutual fijnds. A number of existing financial institutions have diversified into several new activities, such as infrastructure financing. Financial developments are also reflected in the growing importance of Mutual Funds. It the nineties, they have enabled sizeable mobilization of financial surpluses. The Mutual Funds (MFs) industiy expanded in the 1990s after it was opened to the private sector in 1993. Despite increase in the no of mutual funds and the schemes operated by them, net resource mobilisation by MFs decelerated sharply during 1990-2002.^°

Merchant banking activity has mushroomed in the Indian scenario with both private and public sectors setting up their respective merchant banking divisions. Development Financial Institutions (DFIs) took several steps to reposition themselves and reorient their operations in the competitive environment by offering innovating products and diversifying their activities into new areas of business. However, the profitability of DFIs has declined in recent years. With the steady reductions in the share and role of the public sector in the economy, the importance of activities related to financial intermediation has increased.

Foreign Direct Investment (FDI) upto 49% from all sources permitted in the private banking sector. Non Banking Financial Companies (NBFs) permitted to hold foreign equity upto 100% in holding companies. International Financial Institutions like ADB, IFC, CDC, etc., allowed to invest in domestic companies through the automatic route, subject to SEBI/RBI guidelines.

Insurance has been an important part of the Indian Financial System. Until recently, insurance services were provided by the public sector, i.e., LlC, GIC and its subsidiaries. The insurance industiy was opened up to the private sector in August 2000. After the dismantling of state monopoly, the insurance industiy in India is expected to develop on competitive basis to serve the needs of a dynamic economy. FDI in the insurance sector upto 26% is allowed under the automatic route subject to license form the Insurance Regulatory and Development Authority

(IRDA). The present interest of banks to enter into insurance business mirrors the global trends. In Europe, the synergy between banking and insurance has given rise to the concept of 'bancassurance', a package of financial services that can fulfil both banking and insurance needs. The size of the insurance sector, which stagnated around 0.6% of GDP during the 1980s and the 1990s, accelerated in recent years as the existing insurers endeavoured to retain their market share, while new players attempted to establish themselves. Apart from traditional markets, two more markets are emerging, namely, the derivatives market, and the bancassurance market. Financial derivatives in the Indian financial markets are of recent origin.^' In our international accounts, insurance covers all receipts and payments relating to all types of insurance as well as reinsurance. The following Table D-8 and Figure D-iv, shows that the insurance receipts grew up from $ 64 million to $ 152 million, during Pre WTO periods, and from $ 152 million in 1994-95 to $ 267 million during Post WTO periods. The insurance payments also went up to $ 122 million in 1999-00 and $ 254 million in 2001-02. There are three years, 1982-83, 1985-86 and 1986-87 when insurance receipts remained below insurance payment. The receipts also remained lower than payments in further three years namely 1990-91 1991-92, 1993-94 and 1994-95.

TABLE : D-8

Insurance Proceeds, Receipts and Payments ($ million)

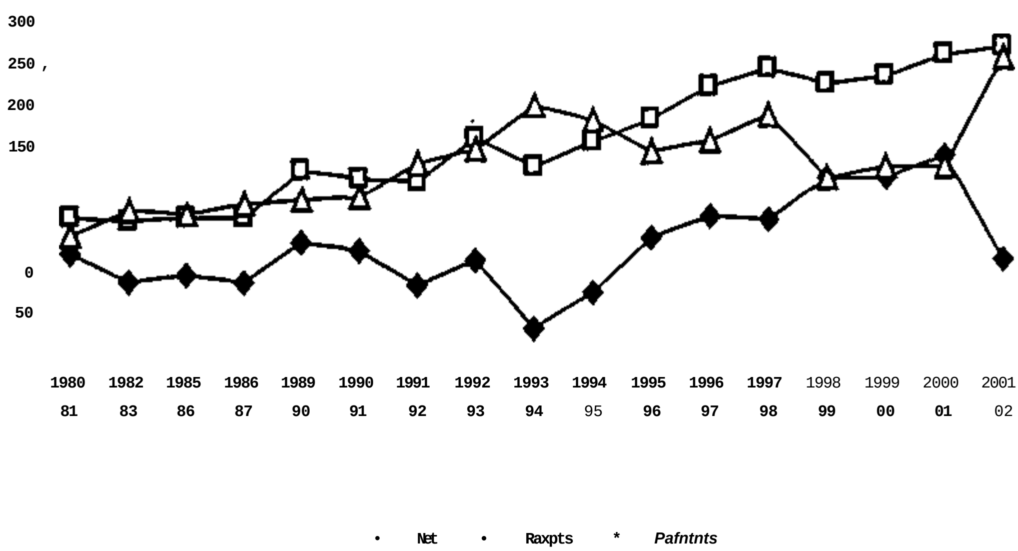
Year	**Net**	Receipts	Payments
1980-81	21	64	43
1982-83	-12	60	72
1985-86	-4	64	68
1986-87	-15	65	80
1989-90	35	119	84
1990-91	23	111	88
1991-92	-18	108	126

Contd

Year	Net	Receipts	Payments
1992-93	12	158	146
1993-94	-71	124	195
1994-95	-29	152	181
1995-96	36	179	143
1996-97	64	217	153
1997-98	57	240	183
1998-99	112	224	112
1999-00	109	231	122
2000-01	135	257	122
2001-02	13	267	254

Source CMIE, June, 2000, Oct 02, Mumbai.

Fig: D-iv: Insurance Proceeds, Receipts &Paynients



In the second phase of reforms, taken in 1998, greater emphasis was placed on structural measures and improvement in standards of disclosure and levels of transparency in order to align the Indian standards with best global practices. The RBI, in consultation with the government of India constituted, a standing committee on International Financial Standards and Codes in December 1999, to chalkout a road map for aligning India's financial standards and practices to the evolving international standards. India's real domestic interest rates have got better aligned with international benchmark rates, notwithstanding the adverse impact of the East Asian crisis during the later half of the 1990s. This suggests increased integration of the banking sector with the rest of the world. The positive impact of increased competition in the banking industiy was also evident from the net interest income on spread. Spread in the case of foreign banks was relatively higher than those of public and private sector banks. Foreign banks remained the most profitable amongst all the major bank groups. Indian companies were allowed to raise funds from abroad, through American/Global Depositoiy Receipts (ADRs/GDRs). Foreign Currency Convertible Bonds (FCCBS) and External Commercial Borrowings (ECBs). Foreign Institutional Investors (FIIs) were allowed to participate in the capital market. Liberalization measures have been undertaken in the forex market with the objective of making it open, vibrant, and market oriented. Exchange rate became market determined. Banks were given increased freedom for operating in the forex market. The new government and the centre, has promised, through its Common Minimum Program (CMP), announced on May 27, 2004, that reforms in the financial sector would continue in the future also.^^

Inspite of the significant improvements in the banking and financial sector, as a result of reforms, several challenges lie ahead, the most important is the need to bring down the NPA (Non Performing Assets). India's export of financial services is negligible and is yet to match the quality and quantum of such services provided by the industrial countries. India's position is far behind the developed

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countries but reasonably good compared to other LDCs with a real growth higher than both groups. In the case of mutual funds while the reforms have been successful in creating a competitive environment, but the growth has slowed down sharply, partly due to depressed market. Insurance as a contributor to the Indian services sector, though significant has not been playing the desired role. Profitability in India is still low as compared to several developing countries and banks need to make concerted efforts to improve their profitability by diversifying their business especially into non-fund based activities. The financial performance of DFIs has been adversely affected in the post reform period, though they have been able to maintain comfortable capital position. In the capital market the depressed state of the primary capital market is a major concern. A major issue, which will influence India's securities markets in the future is the challenge of globalization. There is a need for greater thought and policy initiative, in fully integrating a global perspective into the plans of firms, exchanges, regulations and policy markets.

4.7.2. Tourism and Travel:

Today tourism and travel related services assume great significance for both developed and developing countries. They are the great source for employment creation, income generation and foreign exchange earnings.

GATS has opened a plethora of opportunities in tourism and travel-related services. As many as 79 member countries of WTO have undertaken sectoral commitments under GATS in tourism and travel related services. There exists a whole range of services in GATS in tourism industiy. Member countries have made market access offers in these services. These services include items,

a. Hotels and restaurant services comprising of hotel and lodging services, children's holiday camp and holiday home services, youth hotel and mountain shelter services, camping and caravan site services, sleeping car and sleeping services.

b. Food serving services comprising meal serving services with full restaurant services, meal serving services in self service facilities, etc.

c. Beverage serving sen'ices, for consumption on the premises.

d. Travel agency and tour operators.

e. Tourist guide services.

f Hotel and resort development services.

g. Other, including holiday camps

h. Auxiliaiy tourism enterprises.

i. Car rentals for tourist transport operations

j. Computer reservation system, and

k. Other services.

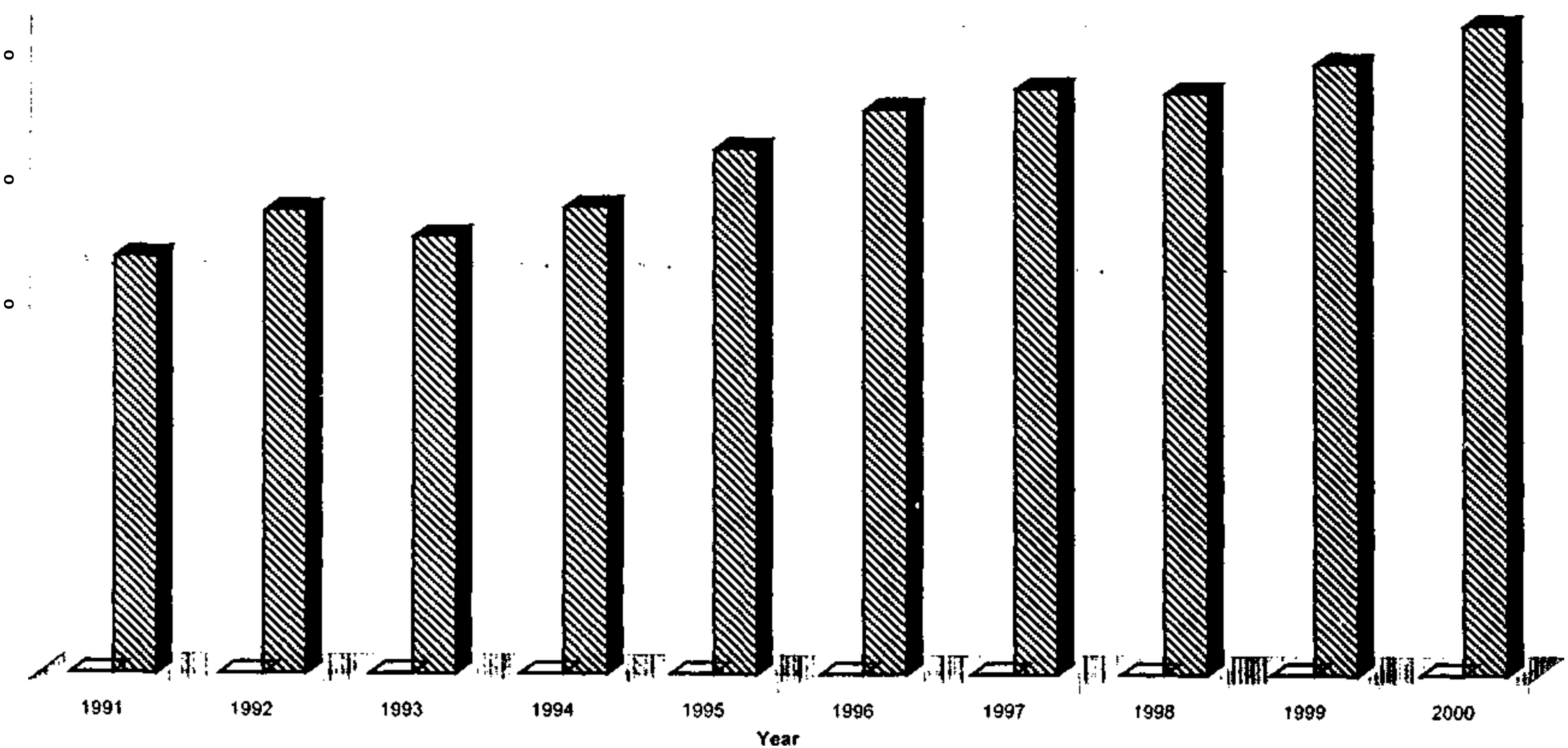
Tourist services are relatively easily to export as the dominant mode of delivery is consumptions abroad where the consumers come to the country of the providers for purchasing such service. Many member countries have undertaken measures to liberalize and globalize their tourism industiy in order to become attractive tourist destinations. Maximum numbers of market access offers have been made by WTO member countries in hotel and lodging services. These are followed by travel agencies and tour operator services, food serving services and others. Though the global market for tourism industiy has been considerably liberalized, selected restrictions have been imposed by different countries. Despite selective restrictions on market access in tourism industry, the offers by member countries of WTO have created considerable potential for such business to flourish globally in the coming years.^"* Recently, international tourism has passed off a sea change. It has now come out as an organised industry with sophisticated and muhi-disciplinary skills. The development of this industry has been a major instrument in promoting understanding and providing a significant source of income for those nations which encourage it.

India, despite its vast tourism resources, has not been able to capture the huge tourism market. Its share in both tourist arrivals as also in tourism receipts has been less than 0.5% in recent years. Although India is a negligible player in world tourism, Its tourism industry is playing a significant role in augmenting foreign exchange earnings of the country. It also provides vast employment opportunities. Tourism economy in India accounts for 5.6% of GDP. It is supporting 5.8%) of the total employment in the country and generating 10.8%) of the total exports from the country. Currently, it is already the second largest net foreign exchange earner in India. According to figures given by CII (Confederation of Indian Industiy) by the year 2020, India could have 40 million aiTivals constituting *4%* of the world travel as against 0.4%) at present. ^

Although for India, the number of tourist arrivals has not increased dramatically, its composition has changed due to fall in the number of those visiting the country for sight-seeing and rise at a rate of nearly ten percent of those coming on health grounds. This has led to a policy adoption towards "health tourism" for India, to fast emerge as a popular tourist destination for the same. Kerala is leading in health tourism. International tourist arrivals in India decreased from 1867651 during 1992 to 1764830 during 1993 (Table D-9 & Table D-v). During 1994, however, the international tourist arrivals went up to 1886433. It again declined during the period 1998 but rose to 2641157 during 2000.

In India, the tourism sector at present is plagued by a number of factors, which include government's apathy, poor sanitaiy condition and pollution, poor infrastructure, visa problem etc. One major problem of India's tourism industiy is the shortage of infrastructural facilities. Roads are potholed, dusty and narrow. Our airports are cracking at the linkage. There is a huge gap in the availability of hotel rooms also. The biggest short fall is in 3 star categories. India's acute shortage of tourist accommodation needs to be overcome in order to raise the volume of tourists.

The governments, support to the industry has fallen well short of expectations and budgetary and other allocations to the sectors have been 1%) of public spending as against global average of 6.8%). Tax paid by tourists in India is



1991
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the highest in the world. Procedural delays in getting visas are another area of concern. India follows the policy of reciprocity in issuing visas. Visas are issued to the citizens of only those countries which give visas to Indians.

India has not formally liberalized the tourism sector as much as other countries. It is important for India to attract foreign technology investment and expertise in those relatively new and un-conventional areas like eco-tourism, adventure tourism camping and related areas so that its share of world tourists grow rapidly and does not decline to the benefit of other countries. Some of the domestic hotel chains like The Taj Group of hotels and The Oberoi group of hotels have limited number of hotels in foreign countries, mainly through joint ventures with local partners. Some of them also provide tourism expertise, though not broad based. In general, there is acute shortage of tourism related expertise in India. Indian tourism, which glimpses a high potential area, thus suffers from several inadequacies. There is no meaning fully sound mechanism in the economy to monitor foreign exchange earnings through international tourism. Thus, the tourism sector, despite having good prospects for growth, warrants innovations, new ideas, fresh marketing techniques and intensive investments." There is very good potential for obtaining growth in this industiy, given India's unique endowments of biodiversity', forests, rivers, mountains, monuments and culture. The challenges lie in successfully presenting these in their original form and making them accessible to domestic and international travellers.

Tourist expenditure in India constitutes an important segment of travel receipts. In our BOP account, the travel item covers expenditure incurred by non-resident travellers during their stay in the counliy. It excludes international passenger services, which are included in transportation. The travel credit in India's balance of payments includes goods and services acquired by the travelers. The most common goods and services extend in travel are lodging food and beverages, entertainment and transportation within the economy visited. Gifts, souvenirs and articles purchases for travellers own and taken out the economies visited are also included in the travel. The debit side includes sale of foreign exchange for the purpose of business trips expenses of Indians staying abroad or receiving training abroad, official business, business travel, hajj pilgrimage, health resources, home leave salary, and to tourists. The travel debit exclude remittances made by foreign national in India for meeting the educational expenses of their children abroad and for correspondence courses overseas. These are covered under private transfer payments. ^^

The net earnings through travels have increased from $ 1107 million in 1980-81 to $ 1030 million in 1989-90 (Table D-10 & Figure D-vi). The travels have significantly contributed, where receipts through this item always remain higher than payments. Net earnings from this invisible item have also grown up for $ 1064 million in 1990-91 to $ 2020 million in 1996-97. Then it decreased to $ 1477 million in 1997-98. Lastly, it came down to $ 294 million in 2000-01. Despite this trend, travel receipt always remained higher than travel payments. The following table given below shows the detailed of travel account in our BOP account.

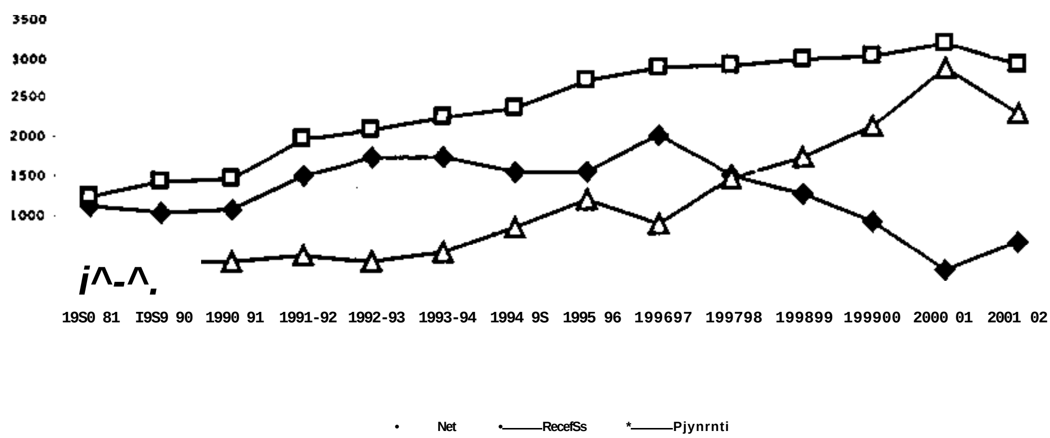
TABLE :D-10

Travel- Net Proceeds, Receipts and Payments- (S million)

Year	Net	Receipts	Payments
1980-81	1107	1221	114
1989-90	1030	1433	403
1990-91	1064	1456	392
1991-92	1512	1977	465
1992-93	1713	2098	385
1993-94	1725	2222	497
1994-95	1547	2365	818
1995-96	1546	2713	1167
1996-97	2020	2878	858
1997-98	1477	2914	1437
1998-99	1250	2993	1743
1999-00	897	3036	2139
2000-01	294	3168	2874
2001-02	628	2910	2282

Source: CMIE, June 2000, Oct. 2002, Mumbai

Fig-D-vi: Travels-Net Proceeds, Receipts & Payments ($ million)



4.7.3. Transport and Communication:

Transport and communication services are the lifeline of every economy. These services play an important role in sustaining other economic activities. Transport services consist of services by maritime transport, internal waterways transports, air transport, space transport rail transport, road transport and others. As far as India's exports of services are concerned air and maritime transport holds important position.

In GATS, sectoral commitments in air transport services are governed by the annex on Air Transport services. It applies to measures mainly affecting the areas, namely aircraft repair and maintenance services, selling and marketing of air transport services, Computer Reservation System (CRS) services, supporting services for air transport and other supporting and auxiliaiy transportation services common to all transport. It has also been agreed under GATS that developments in air transport sector would be reviewed periodically by the council for trade in services [29]

111 India civil aviation services demand is increasing in terms of volume as well as spread. Its supply position is also improving. It is in terms of greater capacity building, additional variety of services, constructing new airports etc. Air India and Indian Airlines, public sector undertakings, provide India's International air services. Infrastructural facilities at airport terminals are provided by the Airport Authority of India (AAI). In April 1990, India's civil aviation policy was liberalised with regard to cargo open sky policies, which allowed international air lines to make decisions with regard to operation and tariffs on cargo, other policy measures such as modernisation of air traffic services, improvement in quality of services were also undertaken. According to a press report, there exists considerable excess capacity in India's domestic air transport since it was deregulated in 1993.'^° Yet, India is a small player in air transport services despite its liberalized policies. It has not been able to exploit much of its air travel services. It is due to its limited capacit)' in such transport services and infrastructure constraints. But India has gained in transportation receipts through freight on goods exports.

As far as maritime transport is concerned India is a old hand trader through shipping. Its policy incentives in this services were through voluntaiy cargo support, setting of long-term targets for sea borne cargo and organizing training courses for safety standards adopted by international maritime organization. Whereas these maritime services are diverse in India, they are comparatively small in volume. Large infrastructural requirements, technological capabilities and capital resources are required to increase the size of these tradable services.

In the railway transport services, Indian Railways is the sole provider of railway transport. In the road transport sector the private initiative, mostly Unorganised and comprising individual operators, has a dominant presence.

In our international account, the net transportation proceeds always remained unfavourable or negative. It is because of rapid increase in transportation payments than receipts, which is due to rise in our exports and imports. As per the

(Table D-11 & Figure D-vii) given below, the payments on this items has grown up from $ 450 million in 1980-81 to $ 1115 million in 1989-90. It further rose to $ 2410 million in 1999-00 and $ 2382 million in 2001-02. It reveals that foreign cargo and civil companies are more influential in transportation of our exports and imports. Although receipts from these sources always remained lower than payments, it has also increased from $ 1433 million in 1993-94 to $ 1969 million in 2001-02.

TABLE : D-11

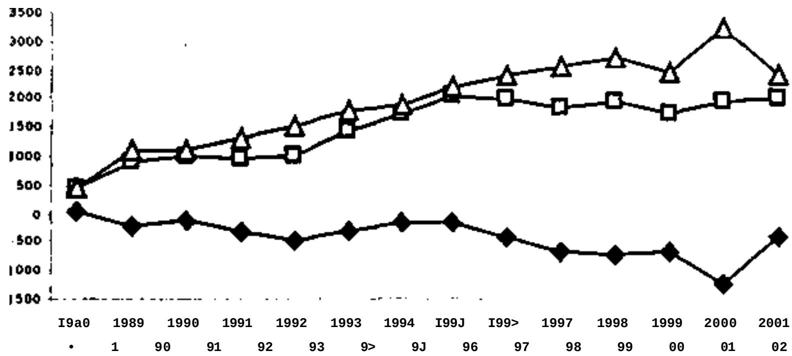
Transportation-Net Proceeds. Receipts. Payments

(S million)

Years	Net	Receipts	Payments
1980-81	7	457	450
1989-90	-208	907	1115
1990-91	-110	983	1093
1991-92	-350	939	1289
1992-93	-503	982	1485
1993-94	-332	1433	1765
1994-95	-167	1696	1863
1995-96	-158	2011	2169
1996-97	-441	1953	2394
1997-98	-686	1836	2544
1998-99	-755	1925	2680
1999-00	-703	1707	2410
2000-01	-1257	1913	3170
2001-02	-413	1969	2382

Source : CMIE, October 2002, Mumbai.

Fig: D-vii: Transportation, Net Proceeds, Receipts & P ayments



It appears that, transportation item always add deficit to current account of our country. From the upward trend in the payments in nineties it follows that, there is growing preference for foreign airlines by Indian tourists, along side the progressive easing of quantitative restrictions facing the air line industiy.

Telecommunication is defined in the annex on telecommunication in GATS as, "the transmission and reception of signals by any electro magnetic means" which enjoys both economies of scale and scope. The deal for basic telecommunication services was signed by 69 member countries of WTO in February, 1997. The participants agreed to keep the date of January 1. 1998 as the date of entry into force for liberalization commitments. Sectoral commitments in telecommunication services refer to the abilit)' of service providers to access markets for providing such services by using national telecommunication network and distribution system of the host country. The main items for basic telecommunication services are voice telephone services, circuit, switched data transmission services, telex services telegraph services etc. In the case of basic telecom services, the mode of commercial presence through foreign entity is limited even in the case of developed countries. The market access commitments of the member countries imply the gross limitations of foreign investment in such a sector.

Indian telecommunication sector is making rapid move with the liberalized policy and growth of tele-network. This liberalized policy aims at improving India's competitiveness in the global market and rapid growth of exports. Currently, India is a marginal exporter of telecommunication sei^vices, with public sector enterprise, telecommunications consultants India Ltd., undertaking consultancy services and turnkey projects in India and abroad. Although export from this service is negligible, India's future potentiality in this sector is unlimited. Market access commitments in basic telecommunication services and specific commitments in the value added services beget the potential of unlimited market opportunities in this area. India can experience rapid growth of this service with its broad base of professionals and technical manpower. Over and above, it depends on creating a competitive implementation of India's telecommunication policy.""

4.7.4, <u>Computer Sofhvare Services:</u>

Computer software is one of the growing items in which India has an edge over other economies. It is a part of business services. It include, consultancy services related to the installation of computer hardware, software implementation, data processing services, data base services and other services. In GATS classification of these services, most of market access offers are concentrated in the first three categories of such services, such as consultancy services related to the installation of computer hardware, software implementation services and data processing services. As many WTO member countries have opened up such a sector, yet, they have imposed major restrictions on modes of deliveiy, like movement of software personnel and setting up of establishment in important countries.^^

In a short span of time India has been able to slice its own corner in world export of computer software. Although India's market share in global trade of software is only 0.1%, the market potential appears quite promising.

For Indian firms the major modes of deliveiy pursued are that of 'body shopping' having joint ventures with foreign tlrms and, of late, moving offshore for large project software. Special commitments in GATS for modes of trading in computer software and services favour cross-border trade and consumption abroad by importers going abroad. India has come out as an important and major player in global IT industiy recently. Despite the fact that Indian software exports represent only about 1 percent of world software exports, according to World Bank funded study, its share in the global cross country customised software software development market has grown up from 11.9% in 1991 to 19.5% in 2000.^^ The industry has also created 4.10 lackhs direct jobs for the last 10 years which is estimated to increase to 22 lakh by 2008."" Listing of Satyam InfoTech in Nasdaq was a moment of great pride for Indian software and has heightened the international recognition of Indian software companies. The growth of internet and global information technology market has increased the demand for computer professionals from India. However, difficulties in procuring appropriate visa and work permit, act as major hindrance to the movement of software professionals to the markets of U.S.A., Canada and European Union. In the areas of India's export of computer software and services, there are competitors from both developed and the developing world. Developing countries like Chile, Brazil, Taiwan. Singapore and Korean Republics are India's competitors in this area and strongly influence India's export frontiers. Some of the major importers of India's computer software and services are U.S., U.K., Germany, Japan, Russia, Switzerland, Singapore, Hong Kong, Canada, Kuwait, Ghana, and Mauritius etc.

In India, there are about 1,700 companies listed with the Electronics and Computer Software Export Promotion Council. India's highly skilled and cheap man power can surely acquire a big chunk of the $ 300 billion world market.'"^ Software export has registered a very strong compound annual growth rate. Even when India's all exports went down to the lowest level during 1997-98, due to the

South East Asian crisis, software export demonstrated an annual growth rate of 67.4% in 1997-98 and 67.5% in 1998-99.^^ (Table D-12 «& Figure D-viii)

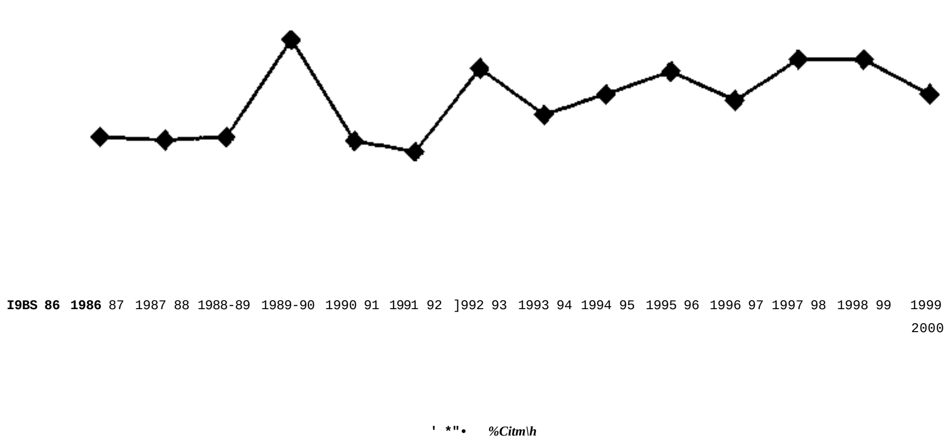
TABLE:D-12

Annual Growth Rate of Software Export (percentage)

Year	% Growth
1985-86	-
1986-87	44.11
1987-88	42.85
1988-89	44.28
1989-90	73.26
1990-91	42.85
1991-92	39.62
1992-93	64.60
1993-94	51.11
1994-95	56.49
1995-96	64.00
1996-97	54.75
1997-98	67.40
1998-99	67.50
1999-2000	56.76

Sources: (1) NASSCOM (2) Daia Bank and Information Division, Ministry of information, Technology, Govt, of India, 1999.

Fig: D-viii: Annual Growth Rate of Software Export



In total export the share of soft\yaie export is also substantial. Its share in total export has reached to 10.5% in 1999-2000. It is estimated to jump to 36% by 2008. This phenomenal growth of Indian software industry is due to many reasons such as, growing respect of Indian software industiy in the international market, continued rise in the offshore services, entry into new markets. Various steps taken by the government to promote software export, establishment of software technology parks, more liberal foreign investment policies etc., has also led to this growth of Indian software industry. In terms of quality also, Indian software industiy is doing well. More than 170 companies have achieved ISO 9000 certification. The importance of offshore software has been increasing over the years. USA is the most wanted destinations of Indian software export. Europe, Japan, South East Asia, are some of other major destination of software export. Recently, more market opportunities were witnessed in Japan, South Africa, Canada and France. The top twenty software exporters accounted for almost 55%, share of the software export revenues in 1999-2000.'"^ These top 20 exporters in terms of revenue are listed below (Table D-13).

TABLE: D-13

Top Twenty Exporters and their Export Revenues (1999-2000)

Rank	**Company**	Export Revenues
1.	Tata Consultancy Services	1,820.35
2.	Wipro Technologies	1,044.12
3.	Infosys Technologies Ltd.	869.70
4.	Satyam Computer Services Ltd.	662.93
5.	HCL Technologies Ltd.	632.92
6.	NUT Ltd.	551.79
7.	Silver line Technologies Ltd.	434.83
8.	Cognizant Technology Solution	414.27
9.	Pentamedia Graphics Ltd.	389.03
10.	Pentasoft Technologies Ltd.	353.01

Contd

Rank	Company	Export Revenues
11.	Patni Computer System Ltd.	295.51
12.	IBM Global Services India Ltd.	271.14
13.	DSQ Software Ltd.	262.36
14.	Mastek Ltd.	241.14
15.	Mahindra Britisli Telecom Ltd.	235.16
16.	HCL Perot Systems	212.44
17.	I-Flex Solutions Ltd.	192.63
18.	Tata Infotech Ltd.	190.93
19.	Zensar Technologies Ltd.	185.31
20.	Birla Soft Ltd.	164.18

Source : NASSCOM, 2000

From the figures it is revealed that, Tata Consultancy Services (TCS) with Rs. 1,820.25 crore is the top most software export company, followed by Wipro Technologies, Infosys Technologies Ltd., HCL Ltd. and so on.

Though Indian Software industiy has the momentum to achieve high growth rate as predicted by IT task force, it is beset with a no of problems. These are related to shortage of competent professionals, inadequate communication facilities, weak domestic market, visa regulation, work permit, threat from China etc. In a fast transforming IT market, competitive edge in computer software exports not only necessitates technological upgradalion but also domestic production base, supply of highly skilled software professionals, incentives for accessing different segments of the market and a supportive environment to exploit local market.

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Chapter-S

5.1 INTRODUCTION

Trade and Foreign Direct Investment (FDI) policies have become the centre of liberalization attempts. Recently, FDI has gained importance globally as a tool of international economic integration. Liberalized trade regime along with an open door foreign investment policy creates pressure to achieve higher levels of efficiency and flexibility at the firm level. Among the four Singapore issues, investment has been the most controversial for WTO. Many developing countries are not convinced about its utility. The multilateral framework under the WTO includes many of the provisions. Developing countries anticipated that the post Uruguay Round era would significantly increase the flow of FDI, particularly to developing countries. However, investment flows to developing countries have not picked up so much as was expected. FDI is still concentrated in developed countries mostly. Developing countries have never been veiy comfortable with the existing investment related provisions of WTO. There is also a concern that WTO rules might effectively give foreign investors preferential treatment over the national investors.

In India FDI has directly impact on output growth by augmenting the available investible capital. However, a far more important impact of FDI is through externalities leading to higher efficiency and productivity. It typically serves to increase competition in markets, bring new technology into India and foster skill acquisition amongst domestic labour. FDI by international corporations is also central to the process of India being utilized as a platform for global production chains, which would pave the way for strong exports growth. Until the early eighties, FDI policies were not on the top agenda of India's development strategy. The 1990s have introduced a radical change in India's policy towards foreign investment in all sectors. The industrial policy of 1991 and following amendments provide a very liberalized policy. Many of the restrictions existed earlier were withdrawn. These were in the form of equity participation, areas of operations, etc. The current FDI policy comprises of a wide variety of incentives to promote policy objectives. However, despite such wide spread liberalization, the flow of FDI are not as per the expectations. For India, it will still take a long way to achieve a faster growth. Actual FDI is significantly lower than approved. Greater attention to FDI policies is required. In a world of intense competition among countries for FDI, liberalization of policies and incentives are important but not sufficient for attracting FDI.

The present chapter is an attempt to analyze the role of FDI in India in the WTO regime. The consecutive part II of this chapter will focus on basic concepts and Impact of FDI. Part III examines the multilateral framework on investment in the WTO. The successive part IV, deals with the WTO's TRIMs agreement in Indian context. Part V of the cun-ent chapter will review India's policies towards FDI. An analysis of the global trend in FDI will be made in part VI. Part VII discusses the trends and patterns of FDI in India. Finally in the part VIII, a comparative study of India has been made in the context of FDI.

5.2 FDI: CONCEPT AND SIGNIFICANCE

5.2.1 Basic Concepts of **FDI.**

Foreign investments consist of transfer of capital resources such as finance and technology, and other skills from one countiy to another. Aggregate foreign investments as an items of BOP are divided into, (a) Foreign Direct Investments (FDI), and (b) Foreign Portfolio Investments (FPI).

FDI provides financial resources for investment in the host countiy and thereby augments the domestic saving efforts. FDI involves control over decision making in an enterprise located in one countiy by investors located in another. It can be made by individuals or partnerships. However, most FDI is undertaken by enterprises, and the large part of that by Multinational Enterprises (MNEs). Direct investment and management go together. FDI occurs because the investing enterprise has some advantage, perhaps in technology or management, which it wishes to exploit in foreign markets, or perhaps some disadvantage that it wishes to eliminate.^ FDI can be made by acquiring stock of the existing foreign enterprises to participate in the management of the concerned enterprise, by establishing abroad new subsidiaiy with 100 percent ownership, by participating in a joint venture through stock holdings, and by establishing new branches or expanding existing ones. There are three components of FDI, viz.,

a. Equity capital, in which foreign direct investor purchase the shares of an enterprise in a countiy other than its own.
b. Reinvested earnings, which consist of direct investor's share in earnings, not distributed as dividends by FDI enterprise. Earnings are also not remitted to the direct investor. Retained profits are reinvested.
c. Intra-company loans or intra-company transactions. These refer to short-term or long-term borrowing and lending of funds between direct investors and FDI enteiprises.

IMF has defined the direct investment enterprise as an incorporated or Un-incorporated enterprise in which a direct investor, who is a resident in another economy, owns 10 percent or more of the ordinaiy shares or voting power. As per this, from March 31, 1992 the objective criterion for identifying direct investment has been modified and is fixed at 10 percent ownership of ordinaiy share capital or voting rights. It also comprises of preference shares, debentures and deposits, if any, of those individual investors who hold 10 percent or more of equity capital.^

In India, FDI statistics are published by two official sources, viz., RBI and Secretariat for Industrial Assistance (SIA). The FDI definition and computation of its statistics used by RBI does not go by the guidelines of the IMF. The RBI has revised data on FDI flows from the year 2000-01 onward by adopting a new definition of FDI. It includes three categories of capital flows under FDI, viz., equity capital, reinvested earnings and other direct capital. Previously, the data on FDI reported in the BOP statistics used to include only equity capital. While estimating actual FDI inflows, India excludes reinvested earnings, whereas according to IMF guidelines, these reinvested earnings should be recorded as inflow on the capital account of host country's BOPs. India also does not include the proceeds of foreign equity listings and foreign subordinated loans to domestic subsidiaries. As per IMF guidelines, these are part of inter-company loans and should be a part of FDI inflows. Overseas commercial borrowings are also excluded from FDI estimates of India. In India some Foreign Institutional Investors (FIIs) hold well over 20 percent of the equity in the form of American Depositoiy Receipts (ADRs) and Global Depositoiy Receipts (GDRs), which are not a part of FDI. There is a lot of scope for improving India's FDI statistics if it is to be more consistent with IMF standards and therefore comparable with those of other countries. FDI inflows in India are entirely evaluated on equity investments while ignoring other components. It implies that, FDI inflows into India have been systematically undervalued by quite a significant proportion of the total volume of inward FDI."

5.2.2. Significance and Impact of FDI

FDI is the most important channel of harnessing the resources of Transnational Corporations (TNCs) for industrialization of developing countries. However, the impact of FDI on the host country depends upon the areas of operations, nature and the extent of technology or new knowledge brought in, extent of domestic value added and the exports and inter-firm linkages generated among other factors.

FDI brings benefits through some main channels. Supporters of FDI proposed that foreign investors introduce a package of highly productive resources into the host economy, including production and process technology, managerial expertise, accounting and auditing standard, and knowledge of international markets. FDI is an additional source of capital for the host countiy. It adds to domestic savings and thereby helps in increasing the rate of growth of output. It augments the domestic saving efforts.

FDI can sei-ve as a vehicle for technology transfer. Multinationals often bring in new production technologies, which generate benefits for both host and source countries. It raises the technological standards, levels of efficiency and the competitiveness of the host country. This can occur in several ways. FDI brings with it complementaiy assets such as technology, management and organizational competence and there are spill over effects of these assets on the rest of the economy. As the foreign owned enterprise enters into competition with the local firms, the latter categories of enterprises are forced to improve their technology and product quality. Further, the foreign owned enterprise pressurises and assists the local related and support industries to improve the quality of their products and insure greater reliability of delivery, both of which make it necessaiy for the related and support industries to upgrade their technology.^

FDI also provides the much-needed foreign exchange to help bridge the balance of trade deficit. Indeed, in the wake of debt crisis, FDI has come to be viewed as an increasingly important source of external finance for developing countries. FDI also helps the host country in improving its export performance. By raising the level of efficiency and the standards of product quality, FDI makes a positive impact on the host countiy's export competitiveness. It also provides the host country better access to foreign markets because of international linkages of Transnational Corporations (TNCs). Also, where the foreign investment has been made with the specific intention of sourcing parts, components (or even final products) from the host country to take advantage of low cost conditions there (eg. low wages), FDI contributes to exports directly. Governments may encourage potential exporters to locate near each other by creating Special Economic Zones (SEZs), or Export Processing Zones (EPZs) or promoting clusters, or by conferring special benefits, such as duty free imports of inputs, subsidized infrastructure and tax holidays to help reduce costs for domestic firms in breaking into foreign markets. As in India, establishing of Special Economic Zones (SEZs) is one of many ways used to encourage FDI and promote exports. The government of India introduced SEZ scheme in 2000 to provide an internationally competitive and conducive environment for export production. These zones were separated from the rest of the countiy by physical barriers. As of end fiscal year 2002-03, Exports of SEZs had grown to Rs 100.5 billion, representing about 4% of the country's total exports. However, a large percentage of approved projects remain in the planning stage. In addition, SEZ exports in other countries account for a substantially larger share of total exports. In the People's Republic of China, SEZ exports as a share of total exports have grown steadily particularly for high-tech exports. India's experience can be taken as evidence that providing special privileges to foreign investors does not always produce the intended results. Indeed, the entiy of export oriented, labour intensive FDI is facilitating the necessaiy process of structural adjustment. Moreover, the freeing up of the domestic labour market is enabling workers from poor hinterland regions to seek employment in the booming FDI connected coastal regions. While this migration has considerable and sometimes disruptive social implications and may create unemployment. The employment effects of FDI in India have been mixed . Nevertheless, MNEs are playing an ever more prominent role in the global economy, with crucial implications for countries pursuing an export-oriented development strategy. As compared to a decade ago or more, FDI will now be more export oriented and account for an increasing share of host economy exports. But the trade orientation of MNEs is largely influenced by the domestic policy environment. Here the East Asian and South Asian comparison is striking. In India, MNEs share in her exports is minor (about 3%). Whereas, in many East Asian economies, the respective share is 50 percent or more. However, In countries where MNEs dominate host country exports, there is some concern over the potential loss of economic policy sovereignty. Malaysia, where MNEs account for about 75 percent of exports, exemplifies this issue. In the area of services, such as, banking, insurance and telecommunications, FDI is the main instrument for promoting trade. The expectations of host countries toward FDI differ over the course of economic development. Employment generation is the principal attraction for low-income countries. Whereas for countries with a stronger domestic R & D base, the focus is on to enhance the process of structural adjustment toward higher value-added activities. In Malaysia, for eg. the focus on MNE impacts is principally to do with technological upgrading issues. For Vietnam, it is employment and exports, together with managing the foreign presence in the context of limited bureaucratic expertise. India seeks to build on and modernize its domestic R & D strengths.

Thus, FDI is beneficial or harmful to the host country depends on the content in which the investment takes place and in which the resulting economic activity operates. FDI prospects can be raised by the government action at the national level, by reducing the uncertainly, asymmetries information and other transaction costs, that are faced by foreign investors. More important to most potential investors are the size and expected growth rate of the market, that could be served long temi macroeconomic and political stability, supply of skilled or trainable markets and modern transportation and communication infrastructure. Once these criterias are satisfied, then financial incentives may influence the investor's choice of suitable sites. Moi"e important, such incentives often creates distortions and inefficiencies. Investments would flow if both countries believe that the expected benefits are greater than the costs involved.^

In general, maintaining an economic environment that is conducive to both domestic and foreign investment is the ideal path for government to take. For the developing countr>', a policy targeting export oriented FDI or high technology FDI may be very favourable for the countiy's BOP rather than one attempting to maximise the magnitude of FDI, irrespective of its composition. Presently, many nations are focusing on technology intensive product exports and adopting innovative alliance with TNCs. India's focus should also be on "Technology based exports".

5.2. Foreign Investment under the WTO regime:

The decision to initiate discussions on investment, particularly its relafionship with trade as one of the four "Singapore issues", after the first ministerial conference in 1996 was among the most controversial that the WTO has witnessed since its establishment. Most of the developing countries opposed any discussion on the possible linkages between trade and investment. They saw in this move an attempt by the developed countries to introduce in the WTO a Multilateral Agreement on Investment (MAI), the framework of which was being discussed among the OECD members. The focus of the OECD, Multilateral Agreement on Investment (MAI) was on increasing the level of protection to foreign investors that had been granted by their host governments. However, despite the opposition from the developing countries to an inclusion of investment in the work programme of the WTO, a working group was established after the Singapore ministerial conference to examine the relationship between trade and investment. Many of the developing countries argued that, the requirement was for an investment regime that was consistent with the development priorities of the developing countries. Ultimately, the developing countries agreed to negotiate on four clusters of investment related measures. These were Trade Related Investment Measures (TRIMs), General Agreement on Trade in Services (GATS), Trade Related Intellectual Property Rights (TRlPs), and Agreement on Subsidies and Countervailing Measures (SCM). TRIMs explicitly and exclusively deals with certain investment issues such as local content requirement, export commitment, dividend balancing etc. The agreement on TRIPs has a bearing on FDI issue in which the definition of these rights and the adherence to international standards and procedures constitute part of the framework within which foreign investment takes place. The GATS also related to FDI issue since it recognizes local presence as one of modes of supply of service. With respect to agreement on Subsidies and Countervailing Measures (SCM), certain investment incentives lie within the definition of a subsidy.

The Agreement on TRIMs has a built in agenda under Article 9 of the agreement, wherein the members can recommend expansion of the WTO to both investment and competition policy. It was this provision that was invoked *to bring* on board the issues of investment and competition policy at tiie 1st ministerial conference of the WTO in Singapore in 1996. Further progress on this issue was made at the Doha ministerial conference as the members agreed to decide on whether and upon what terms to launch negotiations at Cancun. However, the Cancun ministerial remained inconclusive with the issue of investment playing an important role in the collapse of the talks. After the Cancun fiasco, WTO discussions moved to Geneva. Following that, after about one year of expensive discussions, members of the WTO agreed on a framework of negotiations.

The agreement on TRIMs seeks to reduce, and ultimately eliminate restrictions that sovereign governments have imposed on the TNCs, TRIMs is aimed at expansion and progressive liberalization of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country members. The agreement requires member countries to phase out performance requirements especially those relating to trade such as local content requirements and foreign exchange neutrality. It has also provided with an illustrative list of TRIMs that are considered inconsistent with its provisions. These include local content requirements, requirements limiting imports to the value of exports, or restrictions on exports. Developing countries are also allowed to deviate temporarily from the provisions on account of BOP difficulties. Developing countries and LDCs also get extension of the transition period on request, while facing particular difficulties in implementation.^ TRIMs agreement curtails the ability of the host governments to improve the quality of FDI in time with their development objectives. Many developed and developing countries .are using local content regulations. For instance, Italy has imposed 75 percent local content on Mitsubishi Pajero, where as US has imposed 75 percent on Toyota Camry, etc. The TRIMs agreement requires the phasing out of restrictions on exports or imports imposed by the host governments. There is no requirement of phasing out the export restrictions that are imposed by the MNEs on their affiliates. MNEs often impose restrictions on exports of their subsidiaries, affiliates and licensees or on the sourcing of their purchases.

TRIMs agreements also failed in disciplining the investment incentives given by the host governments to attract FDI inflows. These incentives tend to distort the investment patterns much in the same way as export subsidies do to patterns of trade. Industrialized countries have largely indulged in incentive wars to attract foreign investments to particular locations and have been offering substantial subsidies to MNEs to attract investments. As developing countries lack the capacity to provide matching financial subsidies, investment incentives do tend to restrict the normal pattern of location of investments in favour of industrialized countries. Developed countries have managed to circumvent the provisions of trade distorting investment measures to deepen their industrial structure, measures that are denied to developing countries under the provisions of the TRIMs agreement."

The TRIMs agreement prohibits the host countries to put restrictions on foreign investors to acquire inputs domestically. However, sourcing inputs domestically by foreign companies is of great significance to the host countries and foreign investors. If foreign companies obtain inputs locally, particularly in host countries in which labour costs are low, they can reduce production costs. They can also enhance their specialization and flexibility and adopt technologies and products better and faster to local conditions. Production and employment opportunities are also provided through local content requirements to the domestic suppliers.'"

Thus, the implementation of the TRIMs Agreement is likely to have important implications for developing counties by taking away some of the flexibility to regulate foreign investors in pursuing their development policy objectives. The agreement also brings into a no of asymmetries. Since the enactment of the agreement, the main focus has been on the trade effect of local content and export performance requirements. Some developing countries take the view that TRJMs and other investment measures are domestic investment issues that should therefore not involve WTO. Yet, the emerging WTO regime covers a number of agreements that affect the ability of the host country government to use some aspects of policies to improve the quality of FDI.

5.4 TRIMS AND INDIA

The WTO agreement on TRIMs is a sensitive area in Indian context. The very purpose of TRIMs is to monitor investment measures, which may have the effect of restricting and distorting trade. In India provisions regarding TRIMs is not different from those, which we have incorporated in our New Economic Policy since July, 1991, which led to opening the economy for foreign investors. TRIMs restrict the power of the government to regulate and control foreign investment. Foreign investors have acquired advantageous position vis-a-vis our domestic investors. They enjoy full freedom to operate with the backing of their government. Under the agreement India can continue to deploy measures such as import balancing requirements on the ground of BOP difficulties. There is no implicit or explicit reference to obligation regarding entry on quantities of Foreign Direct Investment (FDI). India will be prohibited from protecting its national interests despite the fact that foreign investment has historically increased imports and reduced exports. The agreement prevents any discriminatoiy investment measures, which favour goods produced by Indian companies over imports. However, Indian companies will be unable to compete on a completely equal basis with transnational corporations due to the great disparities in financial and technological strength.""In a joint submission with Brazil to the WTO's committee on TRIMs in October 2002, India argued that the TRIMs agreement should be amended to incorporate provisions that provide developing countries with the flexibility to implement development policies. In particular, it proposed that developing countries should be allowed to *use* investment measures or performance requirements to promote domestic manufacturing capabilities in high value-added sectors, to stimulate transfer and indigenous development of technology, to promote domestic competition and to correct restrictive business practices. Some developing countries, including India, consider that policies such as domestic content requirements are essential policy tools for industrialization. At the WTO Doha ministerial conference in November 2001, a number of countries stated that joint-venture requirements encourage indigenizalion. They believed that developing countries should be allowed to use TRIMs and other investment measures flexibly in pursuit of developmental objectives. This is due to the reason that each country's unique needs and circumstances require sufficient freedom and flexibility to pursue one's own policies. They propounded the view that, although the TRIMs agreement established uniform obligations for all members, it does not take account of structural inequalities and disparities in levels of development, technological capabilities, or social, regional and environmental conditions. It also does not include a meaningful development dimension. A legally binding treaty on foreign investment would further reduce the degree of llexibility available.

It has also been argued that there is no evidence that an agreement will increase investment flows into developing countries. It would serve little purpose. Moreover, India and few other developing countries have consistently argued that members must discuss the issue of mobility of labour (Movement of natural persons) in any discussion on investment, as it too is a factor of production. India made a submission, along with Cuba, China, Kenya, Pakistan and Zimbabwe spelling out investors and home governments' obligations. It includes preventing cases of corrupt corporate practices, fraud and bankruptcies. These could also be used to protect the environment, bring transparency in the corporate world and control restrictive business practices, it has argued. The surveys of foreign affiliates operating in India conducted by the RBI have repeatedly observed a high incidence of restrictive clauses imposed by MNCs on their local affiliates, through technology transfer agreements. The bulk of these restrictions imposed by MNEs on their Indian affiliates prohibit their export to all the countries or specified countries. Many other affiliates require to obtain their parent permission for exports. These restrictions are as trade distorting as those imposed by the host governments and should come under the purview of the TRIMs agreement. Government of India has indicated that-the TRIMs agreement should be reviewed with the objective of not impeding industrialization of developing countries. It points out that developing countries should have the freedom to use regulatoi7 measures to channel investments in such a manner that it leads to increase in exports and emphasizes the critical importance of local content requirements for industrialization and conservation of foreign exchange.'^

5.5 India's policies towards FDI

In India the ministiy of commerce and industiy, specifically the department of industrial policy and promotion is responsible for the implementation of FDI policy. India's Foreign Investment Promotion Board (FIPB), the Secretariat for Industrial Assistance (SIA), and the" Foreign Investment Promotion Council (FIPC), assist the ministiy in appro\'ing FDI. The approval mechanism for FDI involves a two-tier system. Under the automatic approval route the RBI needs to informed within 30 days of receipt of funds or issuance of shares to the foreign investors. In all the other cases, the proposals have to be considered and approved by the FIPB, which is serviced by the SIA within the Department of Industrial Policy and Promotion (DIPP). Foreign companies may conduct business through, liaison/representative offices, project offices, branch offices, wholly owned subsidiaries (with 100 percent equity), or joint ventures. As of May 2001, FDI can be in the form of new investment or investment in an existing Indian company, both the original investment and the returns can be fully repatriated.'^'

Until 1991, India followed a fairly restrictive foreign private investment policy. It was relied more on bilateral and multilateral loans with long maturities. Inward FDI was viewed essentially as a means of acquiring industrial technology that was unavailable through licensing agreements and capital goods imports. As per Foreign Exchange Regulation Act (FERA), foreign firms were allowed to have equity holding only upto 40 percent. Exemptions were provided only at government decision. Setting up of branch plants was usually disallowed. The law also prohibited the use of foreign brands. Such a restrictive policy retarded domestic technical capability. The period of 1980s was looked as a gradual relaxation of the foreign investment rules. The entry of Maruti, a central government joint venture small car project with Japan's Suzuki Motors in 1982 symbolised this.'^ However, all these changed since 1991. A series of initiatives have been taken since 1991 regarding approval, procedures, investment restrictions on acquisitions and takeovers by foreign investors, local content requirement, restrictions on remittance of funds abroad and special incentives to foreign investors, especially in direct investment. A transparent framework has been created for approval procedure in FDI. All the sectors have been opened with full repatriation and benefit to foreign investors, except agriculture and plantation. Automatic approval are provided by RBI in case of FDI up to 74 percent equity for 9 high priority sector industries and 51 percent equity in the case of 51 priority sector industries and export trading, star trading houses. The FIPB sanctions even 100 percent equity participation in cases where Indian companies are unable to raise funds or in cases where at least one-half of output is meant for export. FDI in the trading hotels and tourism related companies, units of processing zones, and 100 percent EOUS, banking and non-banking financial services, with vaiying degree of foreign equity participation are also allowed. Table E-1, gives a description of foreign investment requirement in some selected sectors as of May 2001. The new liberal policy also permits opening of branch, liaison offices of foreign companies. The new policy also provided automatic approval for technology import, in cases, where collaboration agreement involves royalty payment upto $2 million (net of taxes) to be made in a lump sum amount or upto 5 percent of domestic sale and 8 percent of export over a ten-year period from the date of agreement or seven years from the date of commencement of business. Under the RBI guidelines there is no bar for hiring foreign technicians."*

The dividend balancing condition was removed for consumer goods also. Disinvestment by foreign investors no longer required RBI permission. International firms are allowed to use their own trademarks.

In all, the Indian government has created a healthy atmosphere for FDI inflow. It is now a member of the Multilateral Investment Guarantee Agency (MIGA), which has infused confidence among foreign investors against capture of assets. As a result of all these initiatives, the FDI policy framework of India today is amongst the most liberal investment regime.

5.6 FDI IN THE GLOBAL WORLD-TRENDS

During the last fifteen years, FDI has been the dominant form of capital flow in the global economy even for the developing countries. For the first time in the mid-1990s, FDI flows became greater than that of Official Development Assistance (ODA). After the recent financial crisis in Asia and Latin America, developing and newly industrializing countries, have been strongly advised to rely on FDI, for enhancing savings through capital flows and thereby to promote economic development. The recent boom in world wide FDI flows constitutes a major element of economic globalization. Annual FDI flows rose fifteen fold from US $ 55 bn in 1980 to US $ 865 bn in 1999. In 1999, the FDI/ export ratio crossed 15 percent. However, over the period FDI increased moderately relative to exports. Developed countries still attract a higher share of world wide FDI. However, recently developing countries attracted almost one-third of world wide FDI. FDI also plays a more important role in developing countries."^ World FDI flows continued to grow rapidly for most of the 1990s. Industrial countries accounted for most of this upsurge. Their share stood at 84 percent in 2000. The share of developing countries in world FDI inflows increased to 38 percent in 1997. However, their share declined to 19 percent in 2000, the lowest share since 1990. Though, there have been significant rise in FDI flows to developing countries and their share in world FDI during the past decade, yet the bulk of FDI stock originates from, and is located in developed countries. It remains mostly in

Japan, EU and U.S. The U.S. continues to be the largest host countiy for FDI. However, its role as largest outward investors has been taken over by the U.K. since 1999 and also France for the first time in 2000. Developing countries such as Hong Kong (China), Singapore and Taiwan Province of China have emerged as important hosts and liome economies for FDI.^°

Global FDI inflows decreased by 41 percent in 2001, and further by another fifth in 2002. These were due to weak economic growth, tumbling stock markets and institutional factors, such as winding down of privatization in several countries. The US and the U.K. alone accounted for 54 percent of the fall in the countries with reduced inflows. The decline in the developing world (23 percent), was steepest in Africa (41 percent), followed by Latin America and the Caribbean (33 percent). Flows to the world's most populous region, Asia and the Pacific, fell only by a little. The most affected sectors were finance, transport, storage and communication. FDI in other industries remained virtually unchanged. FDI inflows in 50 countries, which together accounted for roughly 90 percent of the total declined by more than 45 percent in both manufacturing and services in 2001, compared with 1999-2000, However, US outflows increased by 15 percent in 2002, while of EU. decreased by 13 percent. FDI from developing countries also declined. In 2003, global inflows of FDI declined further for the third year in a row to $ 500 billion. This was caused again by a decline in FDI flow to developed countries. They were 25 percent lower than in 2002 (Table: E-2). World wide 111 countries saw a rise in flows, and 82 a decline. The fall in flow to US by 53 percent, is the lowest in the past 12 years. Africa and Asia and the Pacific saw an increase. The continuing liberalization of FDI regimes may help in the recovery. There were 244 changes in laws and regulations affecting FDI in 2003. Of these 220 were in the direction of more liberalization. According to the survey conducted by UNCTAD during the first quarter of 2004, of 335 of the world's largest Transnational Corporations (TNCs) from developed, developing and

transition economies and 87 international site-selection experts indicate the optimistic look for FDI flows. Flows are expected to pick up, particularly in Asia and the Pacific, etc. China, India and Poland are considered to be especially well positioned for an upswing. Prospects are particularly bright for some services and for electrical and electronic equipment, motor vehicles, and machineiy, according to these experts. But these prospects for a future increase in FDI depend on a number of macro and micro factors and policy developments. Continued policy efforts at national and international levels may facilitate additional FDI flows.

5.5 FDI IN INDIA- TRENDS AND PATTERNS

Until the early eighties, FDI was not on the top agenda of India's development strategy. The government is now pursuing a pro-active policy to attract FDI. The current FDI regime of India compares favourably with those of several Asian countries which have been quite success in increasing FDI inflows. India possesses a number of advantages to offer to potential foreign investors. Its human capital and R & D base have pockets of international excellence. This is most notably in information technology and in some defense related heavy industiy. Its educational priorities resulted in centers of international quality.

India has long been a recipient of foreign investment. With the liberalization of the FDI policy regime, there has been a substantial expansion of FDI approvals and flows. From the (Table: E-3 and Figure E-i) it is revealed that FDI inflows witnessed a rapid increase from $ 165 million in 1991-92 to $ 4222 million in 2001-02. However, after that it declined and reached to $ 2776 million in 2003-04. The actual FDI has been considerably less. The total FDI approved over the period 1991 to November 2004 was $ 67210 million. Actual flow was only $ 32290 million.

TABLE: E-3

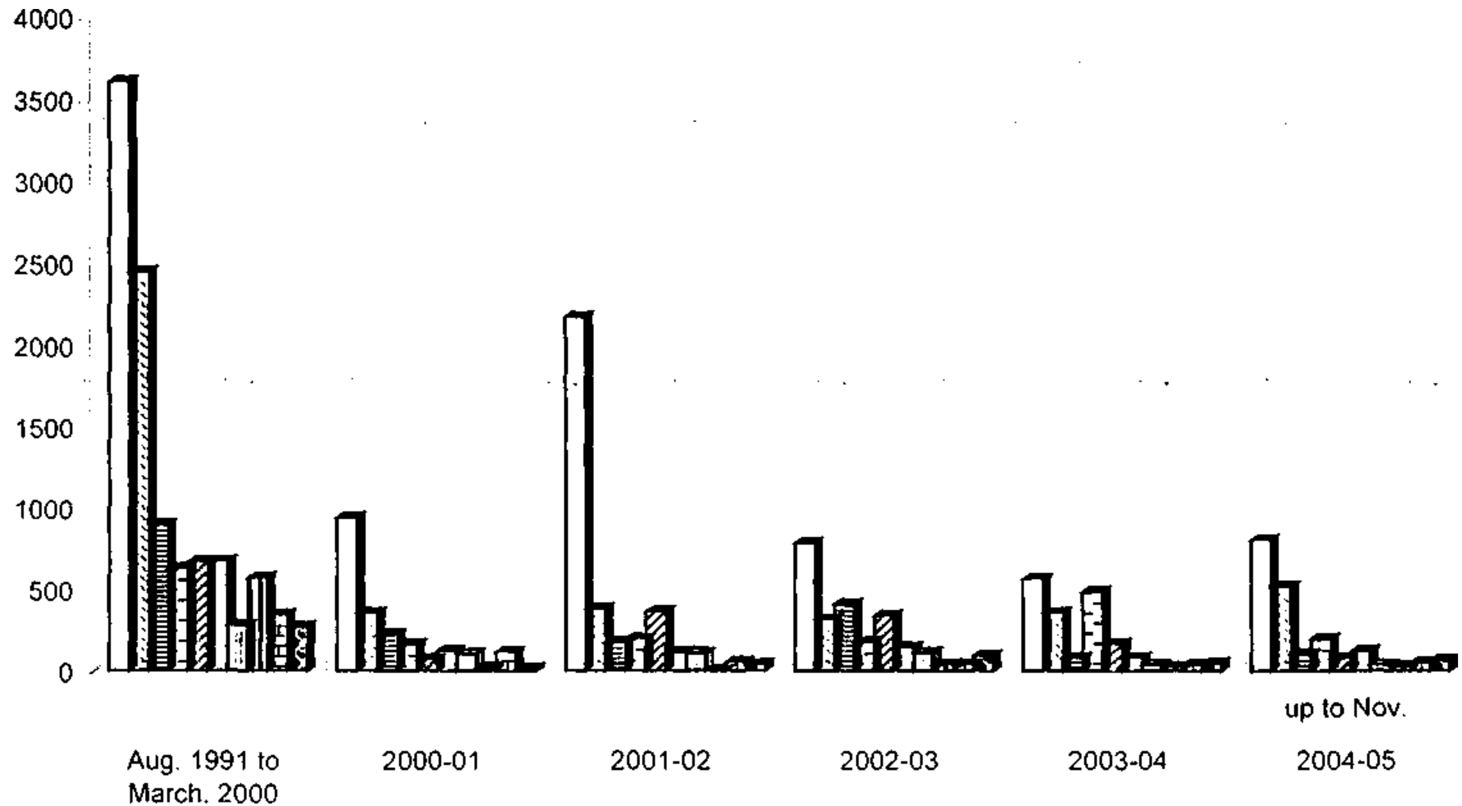
FDI, Approvals and Inflows (US $ million)

Year	**FDI Approval**	**FDI Inflows**
1991-92*	527	165
1992-93	1976	393
1993-94	2428	654
1994-95	3176	1374
1995-96	11439	2141
1996-97	11484	2770
1997-98	10984	3682
1998-99	7532	3083
1999-00	4266	2439
2000-01	5754	2908
2001-02	3160	4222
2002-03	1654	3134
2003-04	1353	2776
2004-05*	1475	2549
Total	**67,210**	32,290

'August- March, * up to November 2004.

Source: Government of India, Ministry of Finance, "Economic Survey", 2004-05

As far as sources of FDI are concerned, a countiy wise FDI inflow is presented in Table: E-4 Figure E-ii. It. relates to only top ten countries over the period 1991-2004. From the table it is clear that the largest share of FDI to India over the period 1991-2004 (up to November, 2004), was from Mauritius. Its share in total FDI inflows stood at 34.49 percent. USA has acquired the second position with **a** share of 17.08 percent in total FDI inflows. Mauritius based investments are nothing but US investments. These are routed through Mauritius because of the tax advantages. Prior to 1990s, India had to depend on a few developed Western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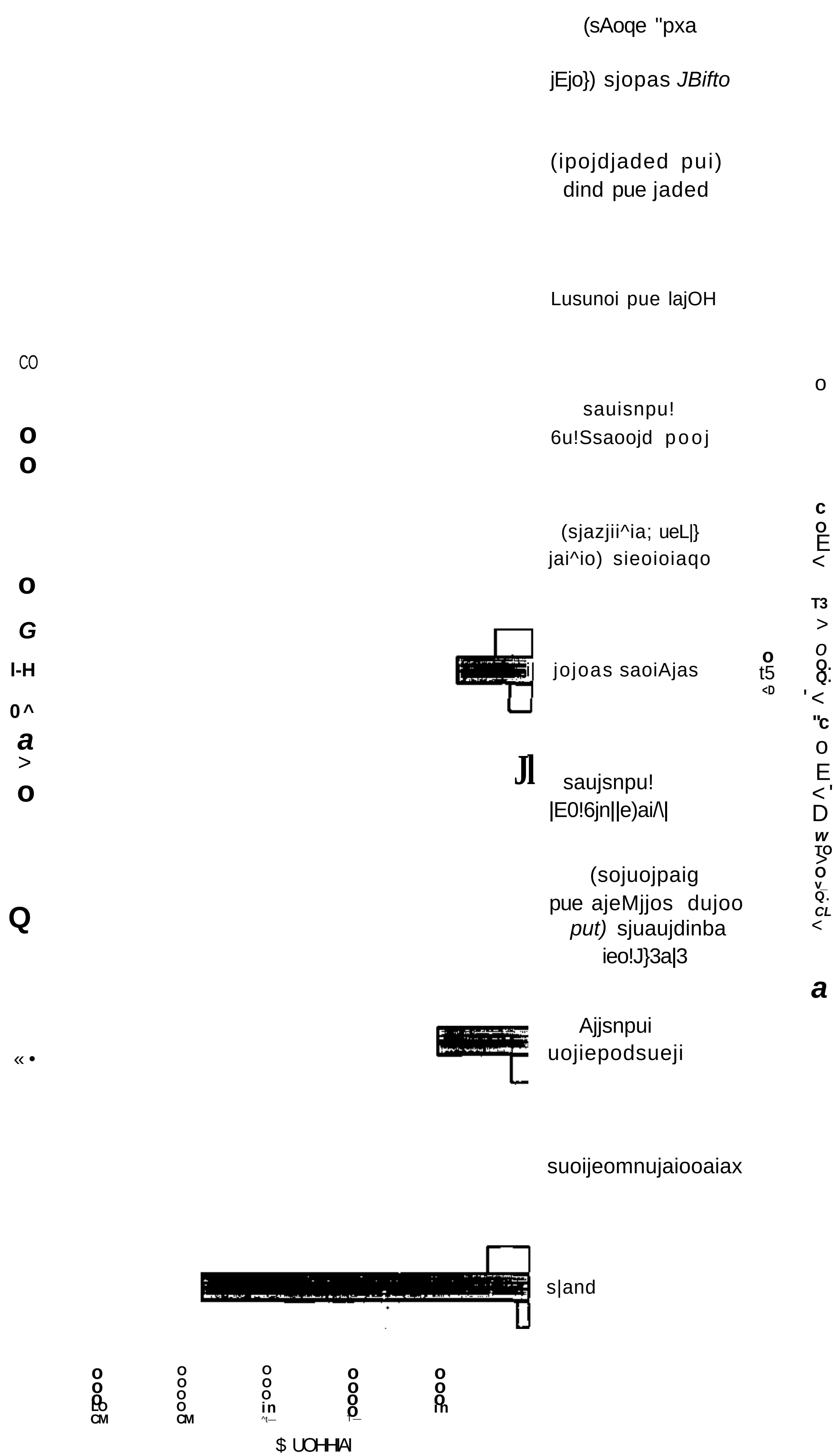
countries for capital. During tiie 1990s, a number of other countries have showed interest in investing in India. These were are Italy, Australia, South Korea. Malaysia, Singapore etc. Many other countries like Israel, Thailand, Saudi Arabia, South Africa, etc. have also gone to increase their share over the years. However,[22] their names are not shown in the FDI list.

Table: E-5 and Figure E-iii, give information regarding sector wise distribution of FDI approvals and inflows. It is clear from the table that largest FDI approvals, worth of $ 19073 million was made in the field of energy. It was followed by telecommunication (radio, paging, cellular mobile and basic telephone services), transportation industiy, electrical equipment (including computer software and electronics), and services sector (financial and non-financial). However, actual FDI inflows show an entirely different picture. The largest inflows of $ 3793 million have been in the field of electrical equipment and these were mainly to the data processing software and consultancy services. It was followed by pharmaceuticals and automobiles industry. This was 13.9 percent of the total FDI inflows. Actual FDI in all sectors remained less than approved FDI. These were only one-third of approvals in electrical equipment, transportation industiy, services sector, chemicals, food processing industries and textiles. Despite much optimism shown by various countries regarding India as a favourable investment destination, India still falls well short of its ambitious target. Although, the FDI policy of the country has provided a clear guideline for entry, freedom of location, choice of technology, production, repatriation of capital and dividends, yet the countiy is still not able to attract huge amount of investment inflows. Though India has done well in terms of attracting FDI, the potential has not been fully exploited. Stability is the most important element in the corporate appraisal of a country's FDI policy, as FDI involves a long term commitment. Policy relating to foreign investment in the power sector is a classic case which has been in a state of lapse for a long time. Similar is the case with telecommunication sector.^^ High corporate tax rate is a major disincentive to



foreign corporate investment in India. The FDI regime of India is still restrictive. Despite tiie fact that India is the second largest receiver of FDI after China, it ranks among the lowest ranked countries, in terms of global competitiveness. Poor infrastructural condition may be a hindrance to FDI. Indian labour laws prohibit large companies to retrench any worker or close down the unit without the permission of the state government. The major impediment to large flow of FDI is the strict exit barriers. Nevertheless India has started to focus on second round of reforms. She is now concentrating on its strengths and policy measures to attract FDI.^'

5.7 FDI IN INDIA- A COMPARATIVE STUDY.

The liberal FDI policy and macroeconomic reforms in India since mid 1991 has helped to attract foreign investors significantly. The amount of approved investment has grown substantially. Actual inflows of FDI has also improved and significantly strengthened the capital account of the BOP of the country. Nevertheless, India is still on a lower ladder among some major FDI receiving countries of Asia. The new policy has attracted investors from different corners of the globe, developed and developing. Yet, over one-half of the approved amount is claimed by only six or seven countries. The annual average flow of FDI into India during 1992-97 was $ 1.6 billion compared to $ 29.8 billion in China, $ 6.6 billion in Singapore, $ 3.6 billion in Indonesia, $ 4.5 billion in Malaysia and $2,2 billion in Thailand during the same period. India has still miles to go to attract more FDI flow into the countiy. Table E-6 presents a comparative statistics for six diverse Asian countries in terms of attractiveness to FDI regimes. From the table it is evident that by 2001, the People Republic of China (PRC) had emerged as the dominant recipient, with more than seven times the stock of the next two, Malaysia, and Korea. In 2002, it was the world's largest FDI recipient, overtaking the US. India still had the smallest stocks, though it had increased quickly. However, India rose to third, from sixth most likely FDI location globally just behind USA. It displaced Mexico, which has dropped to the 22"" place. Although

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USA has remained the second most attractive FDI location, the gap between USA and India may be closing, according to the latest annual survey of executives form the world's largest companies, conducted by the global management consulting firm. China has maintained its top tanking as the most attractive FDI destination. Investors favour China over India for its market size, access to export markets, government incentives, favourable cost structure, infrastructure and appropriate macro economic climate. China's FDI flows are larger ($ 53.5 billion) and primarily capital intensive, where as India FDI flows are smaller ($ 4.3 billion) and skill intensive.^^ Table E-7 gives a glimpse of selected FDI indicators of India and China. UNCTAD'S ranking of countries in terms of foreign investment (relative to the size economy) for the period 1998-2000 is 119 for India, while it is 47 for China. India and China are the giants of the developing world. Both enjoy healthy rates of economic growth, but there are significant differences in their FDI performance. China's FDI procedures are easier and decisions can be taken rapidly. It has a more "business oriented" and "friendly policies" than India. However these investors cite India's highly educated workforce, management talent, rule of law, transparency, cultural affinity and regulatory environment as more favourable than China. It also has better English language skills. In India the government is planning to open some more industries for FDI and further relax the foreign equity ownership ceiling. To identifj' approaches to increase FDI flows, the planning commission has setup a steering committee on FDI in August 2001. The prospects for FDI flows to India are also promising as in China, assuming that both countries want to accord FDI a role in their development process. China will continue to be a magnet of FDI flows and India's biggest competitor."^

However, FDI flows to India are set to rise. Its vibrant domestic enterprise sector and policy reforms will help to the objective of the government to attract more FDI flows. Its large and growing domestic market is certainly the main attraction for foreign firms. India should use its external openness effectively to raise the domestic capability, and access to foreign markets for its labour intensive

TABLE: E-7

China and India: Selected FDI indicators, 1990,2000-2002.

Item	Country	1990	2000	2001	2002
FDI inflows	China	3487	40772	46846	52700
(Million dollars)	India	379	4029	6131	5518
Inward FDI Stock	China	24762	348346	395192	447892
(Million dollars)	India	1961	*29876*	*36007*	41525
Growth of FDI inflows	China	2.8	1.1	14.9	12.5
(annuals, %)	India	-6.1	16.1	52.2	-10.0
FDI stock as percentage of GDP	China	7.0	32.3	33.2	36.2
(%)	India	0.6	6.5	7.4	8.3
FDI flows as percentage of gross	China	3.5	10.3	10.5	-
fixed capital formation (%)	India	0.5	4.0	5.8	
FDI flows per capita	China	3.0	32.0	36.5	40.7
(Dollars)	India	0.4	4.0	6.0	5.3
Share of foreign affiliates in total	China	12.6	47.9	50.0	-
exports (%)	India	4.5			
GDP (billion dollars) a	China	388	1080	1159.1	1237.2
	India	311	463	484	502
Real GDP growth (%)	China	3.8	8.0	7.3	8.0
	India	6.0	5.4	4.2	4.9

a. at current Prices.

Source: World investment Report, 2003, UNCTAD, United Nation.

manufactures. A more liberal policy regime, together with industrial labour market *reforms* and infrastructure investment are needed. China's success in *FDI* is not only a challenge but also a message of hope that India too can make a quantum jump by greater opening of the economy and by ensuring that domestic policies are conducive to the exploitation of the growth potential of trade and FDI.

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Chapter-6

6.1 CONCLUSION

In the preceding study we have tried to show the role of WTO as a multilateral trade organization. We have made an analysis of India's foreign trade under the aegis of WTO. The WTO agreement came into force from Januaiy 1, 1995, by replacing the GATT. India along with 110 other countries became the founder members of the WTO. The WTO shall be regulating global trade in commodities, agriculture, textiles, international services like, insurance and tourism. Protection of intellectual property rights, reduction in state subsidies, etc. It places special emphasis on the removal of NTBs and low level of tariffs. It is expected to provide the common institutional framework for the conduct of trade relations among its members. We have shown this in our study of chapter-II.

Trade being an engine of growth has a significant role to play in the economic development of a nation. India's trade links with all the regions of the world have increased over the years. In the current wind of globalization, India has also taken major initiatives to diversify its exports base as also their destinations. The foregoing chapter III has shown this. Indian economy is being diversified. Both traditional and non-traditional items of exports are growing in importance. Currently, India is the 31^' leading exporter and 24"' leading importer in world merchandise trade. Trade policy reforms of the recent past, with their focus on liberalization, openness, transparency and globalization have provided an export friendly environment with simplified procedures for trade facilitation. As a member of the WTO, the Indian go\'ernment has bound about two-thirds of its tariff lines and has been making a phase reductions in these bound levels. Export promotion is now a continuous and sustained effort. Imports are also being gradually liberalized. The Indian government has submitted a detailed proposal to the WTO for curbing quantitative restrictions. It notified the WTO of its removal of restrictions on 714 and 715 imports items in December 2000 and February 2002, respectively.

The previous study of chapter III, revealed that for the entire post reform period i.e., 1991 to 2000, the compound annual growth i-ate of exports was 10.2 percent. Between 2000 and 2003, India's exports have increased by around 32 percent. Exports growth rate averaged at 15.2 percent. Imports growth after stagnating for two years, accelerated in 2002-03. It was averaged at around 13 percent. During the 1990s India's terms of trade was in her favour. After a gap of 24 years the cuixent account turned into a surplus in 2001-02.India's share in world exports rose to 0.8 percent in 2003. However, India's share is still negligible in world trade. According to WTO, exports from India are currently subject to 40 anti- dumping and 13 countervailing measures, mainly for agricultural products, textiles and clothing products. Imports have galloped because of increasing requirements of capital goods, defense equipment, petroleum products, raw materials and occasionally food grains and edible oils. Trade deficit has been on the increase. It is also manifested from the foregoing study that presently over three fourths of country's exports consist of manufactures. Agriculture and allied products contribute a merely less than one fifth of the total export earnings. Its share stood at 14 percent in 2000-01. Ores and minerals together with crude and petroleum products represent a veiy small segment. Among manufactured goods about one-fifth of total export earnings are provided by handicrafts, of which gems and Jewelleiy hold the largest share. Its exports grew at the rate of 10.3 percent perannum during the 1990s. In 2002-03, major traditional exports like textiles (including garments), gems and Jewelleiy, engineering goods contributed to the bulk of increase in manufactured goods. However, it is also clear from the prior study of chapter III that, most of the manufacturing goods exported are of low value, low tech items. High tech products comprise only 11 percent of India's exports. Cost competitiveness is one of the major concern as India is not in a *very* comfortable position. Textiles and clothing is the largest manufacturing sector in India. It accounts for around 30 percent of India's total merchandise exports. Indian textile and Apparel industry is expected to touch $ 30 billion by the end of

2010-11. The Post MFA scenario is expected to bring significant gains. Yet, currently the domestic textile industiy has only a 3 percent share in global markets. The preceding study also reflected that India's agriculture exports responded positively to trade liberalization of 1991. Nevertheless, the rising export trend could not remain sustained in the post WTO periods. Among various commodities, exports of wheat and oil meals have been hit most seriously. However, despite adverse price situation, India has been able to maintain flow of export of commodities such as fresh and processed fruits, fish products and meat products. Among imports, edible oils have shown veiy high growth in post WTO period. In India, the domestic support to agriculture is largely in the form of lower farm inputs price. India does not provide any direct subsidy to agricultural exporters. Being under a BOP cover, India had not been maintaining quantitative restrictions and had not taken any commitments with regard to market access. The study also reflected that new tariff barriers faced by Indian products in various overseas markets are severely constraining our exports.

The foregoing study of chapter III also indicated that, there is a sea change in the direction of exports and imports. OECD group accounts for major portion of India's exports. The share of this group stood at 52.7 percent in 2000-01. USA, UK and Japan were the largest markets for Indian exports during the 1990s. UAE is now the second largest trade partner 6f India after USA. China has also emerged as another biggest trading partner. The sourcing of imports have shown lowest shares from regions like OECD, OPEC and other Eastern Europe, with gains in the share of other developing countries mainly from Asia. Composition of exports and imports has also undergone with changes. Fruits, vegetables and processed foods are becoming significant in our exports. Presently, major items of the Indian import baskets are petroleum, crude and products, pearls, precious and semi-precious stones, machineiy, organic and inorganic chemicals, electronic goods, gold and silver.

Over the past decade and a half, the services sector has been growing faster than *others. Of this exports are the most* rei^iarkable *feature. In the foregoing* analysis of chapter IV, we have reflected this. Services are veiy important today for the world in general, and Asia and.India in particular. It grows more than 12 percent per annum compared to 5-6 percent in the merchandise trade. It has been highlighted in chapter IV that Indian economy has came to that stage of development where the role of services sectors have become more and more dominating. Services now constituted around 50 percent of our GDP. Presently it accounts for 31 percent of total exports. The GATS has recognized 4 modes of delivery of services. For the developing countries like India, the major mode of interest is mode 4, i.e., temporaiy movement of natural persons. For India Model (Cross Border Supply) and Mode 2 (Consumption Abroad) are also important. India has submitted a comprehensive list of commitments to the GATS. It has made commitments in 33 activities, compared with an average of 23 for the developing countries. India's export of commercial services amounted to $ 24667 million in 2003-04. Services exports grew by 20.5 percent in 2003-04. A recent IMF study suggests that growth acceleration in the services sector is explained by high-income elasticity of demand, user industiy demand and rising exports, in addition to reforms and technological advances. It also reflects the positive impact of foreign trade and investment policy changes. The preceding chapter IV also mirrors that software and other miscellaneous services (including professional, technical and business services) have emerged as the main categories in India's export of services. The relative shares of travel and transportation in India's service exports have declined over the years. Services such as tourism and professional services have been providing considerable foreign exchange earnings as well as remittances from the NRIs.

With regard to direction of sei-vices it is revealed by the foregoing study that currently Dollar Area is overriding region with respect to services trade with India. Sterling Area is also another principal area of India's invisible trade.

From the sectoral analysis of services sector, it has been focused that with regard to financial services, foreign banks have been operating in India for decades. The number of foreign bank's branches in India has increased significantly in recent years. The principle of reciprocity has also helped in the opening of foreign banks in the countiy. The most significant achievement of financial sector refonns has been a marked improvement in the financial health of the commercial banking sector. Aggregate deposits of scheduled commercial banks increased from 37988 in 1980-81 to 962618 in 2000-2001. FDI in the insurance sector upto 26 percent is allowed under the automatic route. However, India's export of financial services is negligible and is yet to match the quality and quantum of such services provided by the industrial countries. Profitability in India is still low. A major issue, which will influence India's securities market in the future is the challenge of globalization. With regard to tourism and travel related services, the preceding chapter have revealed that, despite a negligible player in world tourism, it is playing a significant role in augmenting foreign exchange earnings of the countiy. It generates 10.8 percent of the total exports from the countiy. According to the figures given by Confederation of Indian Industry (CII), by the year 2020, India could have 40 million arrivals, constituting 4 percent of the world travel as against 0.4 percent at present. Today, health tourism is growing in importance. Kerala is leading in health tourism. Despite this, tourism sector is plagued by a number of factors such as poor infrastructure, law and order problem, visa problem etc. The number of tourist arrivals has not increased dramatically. Still, there is very good potential for obtaining growth in this industiy, given India's unique endowments of biodiversity, forests, culture etc. Travels have also significantly contributed, where receipts through this item always remain higher than payments. The study also showed that in our international account the net transportation proceeds always remained unfavourable or negative. Indian telecojnmunication sector is making rapid move with the liberalized policy and growth of telenetwork. But, currently it is a marginal exporter of telecommunication services. Nevertheless, India's future potential in this sector is unlimited. As far as software services are concerned, it is indicated by the analysis of chapter IV, that, in a short span of time India has been able to slice its own corner in world export of computer software. Our software industry has been growing from strengths to strengths. For Indian firms, the major modes of delivery pursued are that of "body shopping", i.e., having joint ventures with foreign firms, and of late, moving offshore for large project software. Specific commitments in GATS for modes of trading in computer software services favour cross border trade and consumption abroad by importers going abroad. In total export, the share of software export has reached to 10.5 percent in 1999-2000. Yet, it is beset with the number of problems such as shortage of competent professionals, inadequate communication facilities, weak domestic market, visa regulation, work permit, threat from China etc.

The study has also made visible that, India has been aggressively seeking access for its professionals in the markets of developed countries. However, India so far remains isolated on the issue of movement of natural persons. It has not even been able to align itself with any strong negotiating group whose interests are similar to India. The potential has to be actualized and we could see the multilateral negotiations under GATS as a means for realizing the potential.

FDI inflows are being increasingly seen as a means of supplementing foreign aid flows and bon-owings for bridging the BOP gap. The impact of FDI on the export performance of the Indian industry assumes significance as the ongoing liberalization policy is based on the belief that FDI helps resolving foreign exchange constraints to development by its contribution to increased exports apart from bringing in net resource inflows on the capital account of the BOPs. In chapter Vth, we have discussed the role of FDI in India. FDI can provide valuable support to BOP in the Indian Economy. The TRlMs agreement of WTO explicitly and exclusively deals with certain investment issues such as local content requirement, export commitment, dividend balancing, etc. TRIMS agreement is a sensitive area in the context of tiie Indian economy. The implications of the TRIMs agreement is likely to have important bearing for developing countries by taking away some of the flexibility to regulate foreign investors in pursuing developmental policy objectives. In a joint submission with Brazil to the WTO's committee on TRIMs in October 2002, Indian has proposed that developing countries should be allowed to use investment measures or performance requirements to promote domestic manufacturing capabilities in high value added sectors, to stimulate transfer and indigenous development of technology, to promote domestic competition, and to correct restrictive business practices. Within the purview of the TRIMs agreement. Government of India has indicated that the TRIMs agreement should be reviewed with the objective of not hindering industrialization of developing countries. Prior study of chapter V has also shown that, although the economic reform measures might not have substantially bridged the current account deficit, that they have definitely encouraged the process of FDI into the countiy. Approved investment has grown largely. Although the actual inflow of FDI has not picked up so fast yet, it has improved, and significantly strengthened the capital account of the I30Ps of the countiy. Nevertheless, India is still on a lower ladder among some major FDI receiving countries of Asia. The foregoing study has highlighted that the new liberalized policy has attracted investors from different parts of the world. Yet, over one-half of the approved amount is claimed by only six or seven countries. UNCTAD"S ranking of countries in terms of foreign investment relative to the size of the economy for the period 1998-2000, is 119 for India. Statistics show that the annual average of the FDI flow into India during 1992-97 was $ 1.6 billion compared to $ 29.8 billion in China, $ 6.6 billion in Singapore, $ 3.6 billion in Indonesia, $ 4.5 billion in Malaysia, and $ 2.2 billion in Thailand. India has still a long way to go to attract FDI flow into the countiy. China has maintained its top ranking as the most attractive FDI destination. Investors favour China over India of its market size, access to export markets, government incentives, favourable cost structure, infrastructure and macro economic climate. However, these investors cite India's highly educated workforce, management talent, rule of law, transparency, cultural affinity and regulatory environment as more favourable than China. However, the quantum of foreign investments from the advanced economies that could improve domestic production capability is perhaps not very different from that in India in relation to its domestic output. The preceding study also showed that the largest share of FDI to India up to November 2004, was by Mauritius. It was nothing, but US investments, which were routed through Mauritius because of the tax advantages. Sector wise analysis has indicated that, with the opening up to new areas for foreign investors, a huge amount of approval and actual FDI inflow is are also found in non-traditional areas such as, fuel, power, services and some consumer goods industries. The foregoing study has also soon some asymmetries related to TRlMs agreement. It has been shown that developed countries have managed to circumvent the provisions of trade distorting investment measures to deepen their industrial structure, measures that are denied to developing countries under the provisions of the TRIMs agreement.

India should effectively use its external openness to increase the domestic capability and access foreign markets for its labour intensive manufactures. All these need a strategic view of foreign investment. India's apparently large and growing domestic market is probably the main attraction for foreign firms. China's success in FDI is not only a challengebut also a message of hope that India too can make a quantum jump by greater opening of the economy and by ensuring that domestic policies are conducive to the expectation of the growth potential of trade and FDI.

6.2 SUGGESTIONS

Despite liberalization of various policies and procedures, India has so for been unable to define its ability and direction to conduct international trade in the face of highly competitive international trade regime. External sector reforms have not lived up to expectations. In this new world economic scenario, where the WTO envisages a global market based on competition, our countiy will be exposed to competition. Today opportunities are lot, but the need is to change the opportunities into results. If opportunities are to be seized, challenges also need to conquer. In the light of foregoing discussion, some important points may be suggested so as to make India as another roaring Asian Tiger in the field of International Trade.

In the field of India's Merchandise Trade, following suggestions can be made.

- In the changing global agricultural scenario, domestic available resources should be exploited fully at maximum possible.
- To meet the growing challenges and opportunities coming out of the WTO agreement, Indian agriculture should be made cost effective.
- Agriculture growth has to be yield based.
- There is a need to fasten the credit flow to agriculture. To bring a change in the product mix towards acquaculture, fish farming, horticulture and floriculture, there will be requirement of huge investment. This will also generate large export surplus.
- As India is exporting rice and wheat to some countries including China. There is a vast scope of exporting the cereals to various countries.
- Today Sanitaiy and Phylo Sanitaiy (SPS) issues are seen as more important than issues relating to tariffs. If opportunities are to avail for agricultural exports in the WTO regime, there is a need to keep attention on health, safety standards and environment, etc. For this attention should be paid in the following directions.

a. There is an information gap about quarantine system. Indian Inspection system should be strengthen.

b. New Laboratories should be set up. Laboratories, both in the government and private sectors should be strengthened

c. Laboratory equipments also need to be upgraded, keeping in view the practices in the importing countries.

d. India's food safety standards should also be upgrade.

India needs the most modern infrastructural facilities, so that we compare with the global standards in terms of exports costs and to support global trade.

Our export success also depends on our ability to control inflation.

To sustain the manufacturing sector's growth, the government must accelerate the second generation reforms on labour issues, remove infrastructural bottlenecks and leverage India's strengths to promote the export of manufactures goods.

Certain sectors having potential for accelerated exports growths need special focus. These include textiles, auto components, gems and jewellery, chemicals, drugs and pharmaceuticals and electronic hardware.

Countiy's manufacturing based WQuld have to be built up.

The development of a strong and vibrant capital goods sector is a must for the growth of Indian Industry.

Indian can make a grade with an eye on education, innovation, competition and market access.

Issues of capacity expansion, technology upgradation on and R & D bottlenecks must be focused on priority if we are to substantially increase our share of the world textile trade in the post MFA Phase.

Regular extension and market support should be provided to small growers and manufacturers.

Inessential imports siiould also be curb effectively to save valuable foreign exchange for import of critical raw materials and capital goods.

With regard to India's services trade following suggestions can be put forward.

In order to face external challenges, we will have to bargain for better market access in both Mode 1 and Mode 4, where India has a comparative advantage.

Institutional and regulatoiy reforms should help services exporters.

India has to gear itself for some hard negotiations at the WTO, as progress on services trade liberalization has been unsatisfactoiy so far. In international trade negotiations it is veiy difficult to push any agenda unless we endorsed by a formidable alliance. The Cancun meeting has flopped, but it saw the emergence of the southern alliance, the G-20. This G-20 put the big trading powers like EU, US and Japan in the board over agricultural subsidies. If India has to move the agenda on services forward, it necessitates to construct a similar alliance of like minded group of demandeur countries or may be a cairns group t>'pe of alliance, comprising both developing and developed countries.

There are many services like nursing, hotel trade, construction etc., which can be exploited.

Benefits of the liberalization of the services sector should also reach to the poor and weaker sections of society.

In the field of financial services, challenges would be to maximize the advantages and minimize the disadvantages of the foreign bank's local presence.

India has already made a mark in Business Process Out sourcing (BPO). The width, depth and geographical reach of such services are expanding. India has to go further beyond the "feel good factor".

- We will have to market our services. Marketing is another weakness of India compared to the rest of the world.
- Services are still a neglected sector. India should focus on the important areas and markets where we can score much higher than our rivals. We will have to do our best.
- Whether it is hygiene, sanitation, or tourism, or providing infrastructure, it is the state governments, which has to play a veiy important role.
- In the software services, we have to move rapidly to more sophisticated segments to sustain our early success. It needs a shift from low cost, high quality, simple products to high cost, high quality and value added products.
- It is necessaiy to see that India does not lag behind in getting full advantage of the new technology. Indigenous technology should also be encouraged.
- A massive investment in the telecom sector will promote exports.
- Tourism is waiting to be tapped. We have to convert the opportunities into results by having an action plan and implementing it in a defined time and cost frame.
- The constraints on potential opportunities in services trade include, lack of set up like export promotion councils other than for computer software various visible and invisible barriers to services trade, for e.g. visa restrictions, economic needs test, sector specific restrictions and selective preferential market access through regional initiatives. These need careful examination in the context of the requests and offers of different countries in WTO.

For the promotion of FDI, following points can be made.

- Foreign Investors should get the signal that FDI is welcome to India, that their investment will be safe. We should not fear of foreign investments, but encourage it.
- Policy makers need to play the most important role. They should be aware of various measures to induce FDI and the factors that determine their flows.

FDI can be extremely useful for emerging economies if it is used strategically.

- India will have to encourage investment from small and medium businesses as well in the selected services sector.
- A more liberal policy regime, industrial labour market reforms and infrastructure investment are needed. The FDI regime in India is still restrictive.
- Government should reduce the uncertainly, asymmetric information and other transaction costs, faced by the foreign investors.
- Attention is also needed on the ground of high corporate tax rate, so that foreign investors need not to seek tax heavens.
- A policy targeting export oriented FDI or high technology FDI may be veiy favourable for the countiy's BOP.
- There should be efforts to enhance transparency of rules and procedures and to ensure socio-political stability.
- WTO should permit an integrated treatment of investment, trade and development.
- Indian Government should participate in the future negotiations at the WTO so as to protect the national interests.
- Market size is crucial to domestic market oriented investment.
- It is require to keep hold options of channeling investment to appropriate sectors and geographical locations.

To sum up, WTO offers tremendous opportunities, but the need is to make aware of it. For India, to become a leading exporter in the world trade, it will have to achieve at least 2 percent share of the world exports by the year 2020. This might be a difficult task, but we should not underestimate the great potential of our agricultural sector and our services sector. As Vibha Mathur, has rightly pointed out that "it should not be surprising if our IT exports alone cross 150 billion dollar mark by the year 2020. What is required is to formulate a highly focused strategy and its rigorous implementation to achieve the desired exports". A higher share of world market will require improved quality and greater openness. Pitfalls and apprehensions are many. The only way to handle the situation is to take required actions on time so that the country does not find itself lagging behind in free trade offered by the WTO agreements. Certain key areas, such as R & D, technology up-gradation, Human Resource Development and strengthening of infrastructural facilities required great attention. It would be sensible for India to create an alliance of like-minded group. For India, implications are that in the short run, gains may be unimpressive, but certainly it will pick up in the long run as the reform process gathers momentum. All these need hard work, total commitment and complete dedication. Here we can put the phrase that "Time and Tide Wait for None", which is veiy relevant to the today's international trading system. We will have to address challenges our selves.

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